Barriers Faced by Rural Female Entrepreneurs of SMEs in Accessing Financial Institutions for Loans in Bangladesh

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Abstract
The purpose of this study is to explore the barriers faced by female entrepreneurs of small and medium sized enterprises (SMEs) in accessing the financial institutions for loans in Bangladesh. A qualitative approach using semi-structured interviews was applied in the study to collect the primary data. The study included ten female entrepreneurs from the rural areas of Bangladesh to recognise the barriers in accessing financial institutions, such as banks, micro-credit and other organisations. The study has identified that a complicated loan process, high interest rates, a lack of bank officer support, the biasness of officers, negative preconceptions about women and high bank account maintenance costs are the major barriers in accessing financial institutions in Bangladesh. The findings of the study will help facilitate Bangladesh and other developing countries to remove the barriers faced by female entrepreneurs and develop the business prospects set up by women. The study also discusses the limitations and the future directions of the research.

Keywords: Small And Medium Enterprises (Smes), Women, Banks, Micro-Credit, Entrepreneurs, Bangladesh

Introduction
Rural development in the 21st century has been identified as growing faster than ever; however, this has been possible not only because of government initiatives and other investments but because of the contribution of the female entrepreneurs of small and medium-sized enterprises (SMEs) (Keller, 2001; Allen & Truman, 2016; Connerley & Wu, 2016; Rajović & Bulatović, 2016; El-Haggar & Samaha, 2019). This trend is also experienced in South Asian countries, especially in Bangladesh where rural development has tremendously changed the way of life for its inhabitants (Afrin, Islam & Ahmed, 2010; Banerjee & Jackson, 2017). However, recent government reports and academic research results support that the development of the rural areas, and even in the urban areas, has been possible due to the female entrepreneurs of various SMEs. The agrarian structure of the Bangladeshi rural areas has already been recognised as one of the impediments for the economic development of the people living in the rural areas (Islam, 2015; Jannuzzi & Peach, 2019).
According to Sabastian (2018), rural Bangladesh has already embraced renewable energy that has been exemplary and a learning point for the rest of the world. By 2021, the government of Bangladesh plans to develop 13.3 GW from new coal plants, but less than 2 GW from solar energy (Sabastian, 2018). Their main justification is cost and availability of land. In contrast, a recent study on clean energy investment opportunities for Bangladesh found that there was far more utility-scale and rooftop solar panel potential than previously estimated. In addition, infrastructural development in the rural areas, especially road transport communication development, has also contributed to the increase of SMEs, particularly by rural people who are normally unemployed during the off-peak seasons (when agriculture works are not available). At present, the total number of SMEs in Bangladesh is estimated to be 79,00,000 establishments, with 93.6% being small and 6.4% being medium (Bangladesh Government, 2018). However, the number of SMEs will be increased if the owners and potential entrepreneurs could be provided support in eradicating the barriers, especially the financial barriers (Uddin, 2014; Abubakar, 2015; Khan & Anuar, 2018).

However, educational development in Bangladesh among the adult people has also contributed to the development of the entrepreneurial mindset of the people regardless of gender. Therefore, there has been a salient development of the economic outlook in the rural areas where 63% of the total population of the country are residing (Sattar, Dewri, & Annana, 2016; World Bank, 2019). However, it has been identified in many previous academic researches that financial support, particularly obtaining loans from government and private commercial banks, for female entrepreneurs, is challenging and difficult (Ghosh, Ghosh & Chowdhury, 2018). This scenario is common and is found in Bangladesh and other developing countries in Asia and Africa (Rosengard & Prasetyantoko, 2011; De Vita, Mari, & Poggesi, 2014; Baporikar, Nambira, & Gomxos, 2016; Boateng & Poku, 2019). Ghosh et al., (2018) identified some challenges, such as lack of trust in women, gender biasness and so on. On the other hand, poor infrastructure, limited access to information and computer technology (ICT), a lack of power supply, regulatory barriers, and training and skills barriers were found to be the barriers for the SMEs in Bangladesh (Riyadh, Bunker & Rabhi, 2010; Scholtz, Koorsse & Loleka, 2017; Chowdhury & Alam, 2017). It is identified in previous research that obtaining loans with a lower interest rate is an easy process which could accelerate the economic development of the rural areas where many female entrepreneurs could launch their SMEs and run them far more easily and efficiently. However, all the previous studies have been conducted in different geographical areas, districts, and countries, with numerous respondents and for different durations. Therefore, results of the studies in previous research cannot generalise the barriers faced by female entrepreneurs of SMEs in the rural areas of Bangladesh. Therefore, this research particularly focuses on female entrepreneurs of SMEs in the rural areas of Bangladesh to identify the barriers faced by them to obtain financial support from the financial institutions, such as banks, micro-credit organisations and NGOs.

Literature Review

SMEs in Bangladesh

The Asian Development Bank reported in 2016 that Bangladesh is one of the major countries in the world where 99% of the business organisations are SMEs (ADB, 2016). However, the number of SMEs in Bangladesh have been increasing every year and now there are more than 79,00,000 SMEs in Bangladesh. The financial capital of SMEs and the numbers of workers in Bangladesh are different to those that have been presented in Table 1.
According to the Bangladesh Bank (2018) and the World Bank (2019), small and medium sized enterprises (SMEs) are the foundation of prosperity of the future Bangladesh; therefore, support from different stakeholders, such as government and financial institutions, are very much important, especially for the female entrepreneurs. However, the female entrepreneurs face many barriers that have been recognised in some previous studies and these are discussed in the next section.

### Barriers Faced by Entrepreneurs in Bangladesh

This section presents the barriers faced by all entrepreneurs of SMEs in Bangladesh, rather than just the barriers by female entrepreneurs in accessing the financial institutions for loans in Bangladesh. This is because it will facilitate in gaining an overall overview of the barriers faced by female entrepreneurs in Bangladesh. However, it is necessary to understand that women in Bangladesh face different barriers, not just in obtaining loans or other financial support, but also in the case of their career advancement (Islam and Jantan, 2017). According to Riyadh et al., (2010), infrastructure is one of the major barriers for the entrepreneurs in Bangladesh to start and continue a business. This is also acknowledged in recent research conducted by Ghosh et al., (2017). According to the study of Jahed, Kulsum and Akhter (2011), they also identified that female entrepreneurs in Bangladesh have to face different problems, for example gender related problems, lack of institutional support, a lack of financial support, a lack of social capital and so on. It is also observed in recent research that in many cases women participating as business as entrepreneurs are not welcomed in both rural and urban areas (Ahmed, 2014).

Moreover, complicated institutional lending processes have been identified as another barrier for female entrepreneurs in the research conducted by Nawaz (2012) and Ghosh et al., (2017). They found that the lending processes in the banks and other financial organisations were built in such a way that female entrepreneurs did not experience easier access to finance. In this regard, a lack of professionalism, poor training, and a lack of collateral knowledge among the bank officials have also been found as the barriers faced by female entrepreneurs in obtaining loans (Nawaz, 2012). Furthermore, a lack of marketing opportunities, a lack of raw materials, insufficient knowledge and experience, the challenges of maintaining accounts, insecure movements, male dominated social structures, a delay in the loan process, high interest rates, and the harassment of law enforcement agencies are also found to be barriers for female and even other entrepreneurs in Bangladesh (Chowdhury, 2011 as cited in Ghosh et al., 2017).

In addition, Parvin, Jinrong and Rahman (2012) also identified that quick instalment payment processes for the requirement of loans paid by NGOs and banks and a lack of evidence of credit worthiness also impacted on the female entrepreneurs in obtaining the financial assistance from the financial institutions as a major problem for the female entrepreneurs. Furthermore, many bank managers in Bangladesh prefer to work with male entrepreneurs than females which is also a significant barrier in accessing these financial organisations to obtain loans (Chowdhury, Alam, & Arif, 2013; Abubakar, 2015; Ghosh et al., 2017). Rahman et al., (2013) also found the loan process in the banks was not flexible and straightforward for new entrepreneurs or indeed existing entrepreneurs, especially female entrepreneurs, which also creates barriers in obtaining loans from the banks. This is also mostly similar from the perspective of developing nations in the world (Esayas et al., 2010).

### Table 1: SMEs in Bangladesh

<table>
<thead>
<tr>
<th>Size of Enterprise</th>
<th>Industry</th>
<th>Required Capital (BDT=Bangladeshi Taka)</th>
<th>Numbers of Workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>Manufacturing</td>
<td>BDT 7.5 Million to 150 million</td>
<td>31 to 20</td>
</tr>
<tr>
<td></td>
<td>Service</td>
<td>BDT 1 Million to 20 million</td>
<td>16 to 50</td>
</tr>
<tr>
<td>Medium</td>
<td>Manufacturing</td>
<td>BDT 150 Million to 550 million</td>
<td>121 to 300</td>
</tr>
<tr>
<td></td>
<td>Service</td>
<td>BDT 20 Million to 350 million</td>
<td>more than 1,000</td>
</tr>
</tbody>
</table>

& Tolossa, 2015). In addition, the complicated registering process of SMEs in respective government agencies is another barrier for both men and women in securing the loans. This is because some banks and financial organisations require SMEs to be registered in order to provide loans. Furthermore, it is also acknowledged in the research conducted by Ghosh et al., (2017) that a lack of business plans, the small size of the business and smaller initial capitals creates a negative impression amongst managers of banks as to whether female entrepreneurs would continue business or not.

Moreover, Khatun (2014) and Islam (2015) claimed that mortgage issues and lengthy lending procedures of banks are also major barriers for men and women in accessing loans from these financial organisations. The most concerning issue is that the share of women receiving SME loan disbursements by banks is less than 4% compared to 96% of male entrepreneurs (Rahman et al., 2013). However, it is important to understand what the scenario is in the case of rural female entrepreneurs of SMEs in accessing financial organisations to obtain loans. It is because most of these studies have been conducted in different contexts using different research methodologies and even these are sometimes more than five years old. However, Bangladesh has been changed in recent years in terms of economic growth and development. Therefore, it is significant to conduct an explorative study to identify what the barriers are to obtaining loans and other sorts of financial support from financial institutions, particularly banks.

Research Methodology

The researcher undertook interviews with ten female entrepreneurs of SMEs in a village located near to Dhaka. However, the specific name of the location and the participants have been kept confidential to maintain anonymity. The researcher used unstructured interviews to come to an understanding of the perceived barriers relating to loans and other financial support from financial organisations for female entrepreneurs in Bangladesh. Participants were selected using convenience sampling because it offered the flexibility of diversity to the participants to capture various aspects of issues associated with barriers in loan disbursement and other processes of financial organisations. Furthermore, the choice of convenience sampling is associated with the fact that the authors intended to examine the experience of female entrepreneurs who have actual knowledge regarding loans and financial organisations. The main criteria for the selection was to have been running an SME for one year and to have applied for loans from the banks, micro-credit organisations or NGOs. One year was thought to be a benchmark to establish that the participants had ample experience about financial organisations. The participants interviewed included: two from broiler poultry farms; three from cosmetics shops; two from goat farming; and three from vegetable farms.

To analyse the data collected from these interviews, a manual analysis was undertaken given the small sample. The manual analysis was more effective to save time and ensure greater scrutiny to the transcripts translated from Bengali. Firstly, the notes of the interview transcripts were reviewed to identify threats for axial coding processes. Thus, the codes were generated initially and then some categories were developed which contributed in gaining final themes. The analysis was thematic to make sense of participants’ responses. The themes provided the basis for analysis and discussion. Thus, the presentation and discussion of the data is in the next section.

Results and Discussions

After consecutively reading the interview transcripts, some themes were generated that have been presented in the following table.

Table 2: Barriers Faced by Female Entrepreneurs

<table>
<thead>
<tr>
<th>Complicated Loan Process</th>
<th>High Interest</th>
<th>Lack of Bank Officers Support</th>
<th>Biasness of Officers</th>
<th>Negative Preconceptions</th>
<th>High Bank Account Maintenance Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/10</td>
<td>10/10</td>
<td>10/10</td>
<td>10/10</td>
<td>6/10</td>
<td>7/10</td>
</tr>
</tbody>
</table>
Complicated Loan Process
According to the above table, firstly the complicated loan disbursement process has been recognised as a barrier faced by female entrepreneurs in Bangladesh to obtain loans from the banks and other financial institutions:

“I have been to banks and even some micro-credit organisations to get some loans but they wanted some documents such as registration of business, national ID, security letter from solvent people, local chairman certificates and even marriage certificate to prove the present marital status. This demotivated me to go again to the bank and officers in micro-finance wanted similar to banks. I am a rural woman, I do not have all these. Then I didn’t get the loans.”

(Participant 6, Owner of a Goat Farm)

“Initially, I faced many problems to open a bank account but after opening the account, I came to know that I have to open another account to get loans for my business! It made me down but I tried my best and got loans. However, it should not be difficult to open bank and get loans because we cannot travel to the bank every day because we have works to do at my firm.”

(Participant 9, Owner of a Vegetable Farm)

Other participants have also opined quite similar information regarding the complicated opening process of the bank accounts that creates barriers for female entrepreneurs. This result is consistent with the findings of Jahed et al., (2011), Rahman et al., (2013) and Ghosh et al., (2017).

High Interest Rates
High interest rates of the loans was also recognised by all the participants. They opined that it impacted on the profit and costs of running the business because if the interest rate is high then there is no point in taking out the loans:

“The loans offered by banks and micro-credit organisations and also NGOs are higher than expectations. I need to earn money to bear all expenditure of business then interest. Now, if the interest rate is high, there is no logic to take the loans because I will be in a trap.”

(Participant 1, Owner of a Poultry Farm)

Other participants also opined similarly that the higher interest rates of the loans was a barrier to taking loans because some people have been facing problems in repaying the loans and also meeting the interest rates.

Lack of Bank Officer Support
All the participants argued that they experienced lack of bank officer support when they went to banks for loans and other services. Participant 8 from a vegetable farm mentioned that:

“I normally didn’t have any knowledge regarding procedure of banks. When I went to bank and asked for help, the officers show me a negative attitude. It could be because of dress or face. It scared me and I immediately come out. Then, I never been to the banks. However, then I contact with local micro-credit organization. They almost same but I finally took some money in a very high interest rate that keeping me worried to repay soon.”

“There are some procedures in the banks and sometimes very much lengthy. When I go to the bank, I had to waste my full day for example I go 9am but I cannot finish until 2pm because long que and also I had to go from one table to another table that really tiring for me.”

(Participant 5 from a Cosmetics Shop)
On the other hand, Participant 7 from a broiler poultry farm blamed the officers in the banks saying that:

“Most of the officers in the banks provide different information about the required documents to open account and also in applying for loans. As a result, every first time account holders and also the people who would like to open the account face tremendous problem. They do not show very much interest to help us so that all the things can go smoothly but they seem love to make things complicated.”

Biasness of Officers
The biasness of officers is another issue that is noticed by all participants in this study. They complained that the loan process is bias and mostly favorable to men and to the people familiar to the officers. Participant 2 from the broiler farm opined that:

“I see a biasness among the manager and officers but not the policies of banks. They say we equally provide the loans and other benefits to males and females. But I think it is totally bias and the bank officers are more comfortable with males than the females to provide loans. As a result, I see we are not given much loans from banks and we have to go to the local micro-credit organizations where interest rate is high but loan amount is low.”

This study also recognised the negative preconceptions about female entrepreneurs and high bank account maintenance costs as the major barriers for female entrepreneurs in rural Bangladesh. Therefore, these are also crucial barriers that hinder female entrepreneurs in obtaining loans from banks and other financial organisations in Bangladesh.

Conclusion and Implications
Bangladesh is one of the fastest growing economies in the world and the development of female entrepreneurs would be very positive in developing overall business prospects in this country. This study finds some significant barriers therefore female entrepreneurs should be provided with all sorts of benefits in removing the barriers (Esayas & Tolossa, 2015; Connerley & Wu, 2016; Ghosh et al, 2018). This is also supported by the previous studies where barriers found in this study are mostly similar and they have also proposed similar recommendations (Nawaz, 2012; Baporikar, et al, 2016; Jannuzi & Peach, 2019). The present government always urges banks to ease the loan process; therefore, the existence of this barrier is really alarming for the respective policy makers.

In addition, the technological developments, particularly in private, commercial and public banks in Bangladesh are supposed to be reducing the complexities of the process of loan disbursement (Hasan et al, 2016). Thus, this study could be a foundation for the higher government officials and also higher bank authorities to take the right initiatives so that complicated loan processes can be reduced. This research is also a significant contribution to justifying the need for the reduction of interest rates. If the interest rate is reduced, the number of entrepreneurs can be increased and existing entrepreneurs of SMEs will be able to take out loans.

Furthermore, this study also highlights that the officers in the banks do not provide much support to the female entrepreneurs which should be rectified because if the female entrepreneurs in rural areas in Bangladesh do not get support from bank officers, they will not be interested in opening accounts and taking out loans. This is also supported by the study of (Chowdhury, et al, 2013; Sattar et al, 2016), who also recommended attitude development of officers in bank to support women who apply for loans and other banking services (De Vita et al, 2014; Ghosh et al, 2018). The study also identifies a biasness of officers in providing loans to female entrepreneurs which must also be reduced because women can become successful in business and they can pay back the loans.

This research also recognises the negative preconception regarding women account holders among officers as a barrier (Connerley & Wu, 2016; Ghosh et al, 2018). Therefore, the bank officers in the banks can be provided training and development so that their perception towards female
entrepreneurs and other female clients can be developed. Moreover, the study also finds that the higher bank maintenance cost is a barrier for female entrepreneurs in Bangladesh. Generally, the profit from the small and medium entrepreneurs in Bangladesh is not very high; therefore, if the interest rate is high, it is very difficult for business owners of small and medium sized enterprises. Therefore, the interest rate should be reduced in the banks. Overall, if the barriers surrounding taking out loans and other financial services from the banks and other types of financial organisations can be eradicated, the female entrepreneurs will be able to develop their business and contribute to the country much better.

**Research Limitations and Directions for Future Research**

Like other empirical studies, this research also has some limitations. Firstly, the size of the sample is a limitation because the results cannot be generalised. The research was also conducted in a rural area including female entrepreneurs from a few business organisations. However, in future research, a larger sample could be included. Future researchers could also apply the results from this study in a quantitative approach using a survey to generalise the data in similar and other contexts, for example in the urban areas of Bangladesh and other countries. Moreover, future studies can also be conducted by way of a mixed approach using surveys, interviews and focus group discussion processes.

**References**


