

Enhancing Women Entrepreneurship through Islamic microfinance in Bangladesh

Bohi Shajahan ¹

¹Assistant Professor, Department of Finance, American International University Bangladesh, email: bohi.shah@gmail.com, Mob: 01927828832.

Abstract: *Investment in women is a crucial element for successful economic development of a nation. Studies reveal that the possibility of growth of a nation can be highly suppressed when women of the nation are not completely utilized. For a developing country like Bangladesh enhancing women's economic participation seems not just as an agenda but an imperative measure to ensure continuous progress and growth. A tool most widely used to Bangladesh to enhance women entrepreneurship is microcredit. Though the conventional microcredit has achieved success in fostering women entrepreneurship it is not short of its drawbacks. Islamic microfinance, slightly different version of the conventional microfinance has served as a plausible factor of development and has shown signs of tremendous growth. This study will basically use the available literature to address how Islamic microfinance can serve as a successful tool to enhance women entrepreneurship in Bangladesh*

Keywords: *Women entrepreneur, Islamic microfinance.*

1. Introduction

Women in Bangladesh have shown great signs of improvement in the last few years. A large number of women are now working in RMG sector, cosmetic and shoe industries. Women's economic participation rate has increased from 29.2% in 2005-06 to 36.0% in 2010 [1]. Though positive it is not satisfactory for a nation where 50% of the population are women. Moreover a study reveals that 47 percent of Bangladeshi women have suffered from different types of assault [2]. According to BBS [3] there exist all sorts of violence against women by both partners and non-partners. This makes it imperative to give more concentration on women in development issues. The government has taken numerous measures and also has made an objective to enhancing the participation rate of women in the labour force from 29 % to at least 40% by 2021 [4]. Thus women entrepreneurship can serve as a factor to increase economic participation. Women entrepreneurs are defined as conventional entrepreneurs, radical proprietors, and domestic traders [5]. Women entrepreneur is a person who has alone or with one or two more partners started or inherited a business eager to take financial, administrative, social risks and responsibilities, and participating day-to-day management activities [6].

Microfinance has been acknowledged as an important element tool in boosting the productivity with their principles to help finance micro entrepreneurs and poor by small loan besides the terms and conditions of these loans are generally flexible and easy to understand [7]. Under the same context a new dimension known as Islamic microfinance overcomes the shortcomings of conventional microfinance. The characters of Islamic Microfinance is shaped by the Quran and hadith, in which the credit appraisal is conducted carefully to provide clients with the best services, capacity building programs and technical assistance [8]. With the dimensions of products involved and possibility of customization, Islamic microfinance can serve as a tool to enhance women entrepreneurship in Bangladesh. Thus the main objective of this paper is:

- To highlight the significance of Women entrepreneurship

- To suggest how and why Islamic microfinance can serve as a tool to enhance women entrepreneurship

The rest of the paper will be dealing with existing literature that shows the importance of women entrepreneurs, their challenges and how Islamic microfinance can overcome the challenge. This paper will also provide a conceptual framework to show how Islamic microfinance can develop women entrepreneurship.

2. Literature review:

2.1. Significance of Women entrepreneurship

In order to accelerate economic growth requires; an increased supply of women entrepreneurs seems fundamental [9] Women’s contribution is said to span across various economic spheres, which also extends the wider process of social transformation [10] In advanced market economies, women own 25% of all businesses and the number of women-owned businesses in Africa, Asia, Eastern Europe, and Latin America are increasing rapidly [11,12]. Women involved in entrepreneurial activity are more independent and can effectively balance their role as wives and mothers [13]. As cited by VanderBrug [14], women plough back 90 cents of every additional dollar of income into “human resources”, which includes their families’ education, health, and nutrition, thereby helping their families, communities, and nations. In Bangladesh Women entrepreneurs has contributed significantly to the GDP

TABLE I: Distribution of MSME ownership by gender of owner and sector

SECTOR	FEMALE	MALE	MIXED
AGRICULTURE	18%	25%	29%
FISHING	1%	4%	6%
MANUFACTURING	47%	14%	23%
CONSTRUCTION	0%	1%	3%
WHOLESALE & RETAIL TRADE AND REPAIRS	23%	42%	25%
HOTEL AND RESTAURANTS	7%	5%	11%
TRANSPORT, STORAGE & COMMUNICATIONS	1%	1%	0%
REAL ESTATE, RENTING & BUSINESS ACTIVITIES	1%	3%	4%
HEALTH AND SOCIAL WORK	0%	1%	0%
OTHER SERVICE ACTIVITIES	1%	3%	--
TOTAL	100%	100%	100%

SOURCE: [15]

The table indicates that in the small and medium enterprise women entrepreneurs are contributing significantly and are more involved in manufacturing followed by wholesale & retail trade and repairs.

2.2. Challenges of Women Entrepreneurs:

A primary and continuing obstacle faced by women even before becoming entrepreneur is difficulty in securing capital funding for new business ventures [16, 17, 18, 19]. Literature supports the fact that women entrepreneurs in developing countries do not have easy access to credit [20, 21]. Riding and Swift [22] concluded financial conditions for women business owners were less favorable than for men: women more often had to pay higher interest rates, find more collateral, and provide a spouse’s co-signature. The women entrepreneurs face many problems as financial or credit facility, training facility, marketing problems, social security problem and attitude toward women of their family and society also create problems to develop themselves as entrepreneur [23]. Related to this another study indicates that the greatest obstacle women face is the lack of capital required for building the permanent structure of the enterprise, labor savings tool to ease domestic burden, and raw materials and growth enhancing machineries needed to increase productivity in their enterprises [24]. In addition to these some more challenges of women entrepreneurs face are lack of proper training , lack of raw materials , lack of capital social barriers ,unsecured communication system , lack of efficient workers ,sexual harassment , family restriction , religious beliefs and traditional customs and lack of linkage with national and international market [19,25]. Even after establishment women face problem in survival on the average, women entrepreneurs are found to have lower sales revenue, fewer assets, smaller profit margins and lower likelihood of survival than men enterprises and this is caused by factors which affect entrepreneurial performance such as lack of credit, savings education or training and social capital [26]

2.3. Challenges of conventional Microfinance:

Lack of capital to start or fund their businesses led them to request for credits from micro-finance institutions [20]. Given the fact that microcredit is a common tool for enhancing women status and alleviating poverty it is not less of drawbacks. Microfinance creates a situation of indebtedness and even in many instances seems to make situation worse. Researchers have indicated that the main cause of the global economic crisis is due to high interest rate, a concept quite common for conventional microfinance [27, 28]. Hulme and Mosley [29] reveal that the institutions that provide credit have success in recovery because they provide credit to middle income and upper poor rather than hard core. Khandaker [30] also finds that with increasing duration the impact of microcredit actually starts to decline. This could be the reason why the number of members start to dropout in the long run [31]. Moreover Micro finance Institutions sometimes provide credit in many cases to people who do not need it [32]. This makes people who receive microcredit be trapped into debt which they are unable to pay and force them to invest in business which they can hardly sustain. Rahman [33] also justifies this by pointing that borrowers often take loans from other sources to pay instalments and are trapped in a debt cycle.

Looking into the long term effect of microfinance Johnson and Rogaly [34] while looking into the effects of microcredit finds that although borrowers remain successful in the short run, they face downturn in ownership of asset, income generation and thus results in higher default rate. Hassan [35] explains that a drawback of conventional microfinance is its high interest rate making Islamic microfinance more preferable among Muslim clients. He further suggests if conventional micro finance is combined with the Islamic financial system like Zakat and Awqaf, the result will be different.

2.4. Islamic microfinance:

Apart from a missing holistic view in poverty reduction, the MFIs' have not ruminated on the spiritual, moral and ethical dimensions of human-socio-economic development, which is precious in sustainable human development [36, 37] Interestingly, there is an argument that spiritual commitment combined with practical support can be more effective in improving the lives of the poor than mere technical help can do [38] Specific to entrepreneurship, studies conducted by Mardhatillah and Rulindo [39, 40] show a relationship between level of spirituality and micro-entrepreneur's performance. Both of the studies though using different methods confirm that spirituality of the micro entrepreneurs influence their business performance.

Islamic microfinance though has shown signs of tremendous growth, is concentrated in a few countries, with the top three countries (Indonesia, Bangladesh, and Afghanistan) accounting for 80 % of global outreach [40]. Ahmed [41] discusses that Islamic teachings provided by the Islamic microfinance institutions improve solidarity and social capital among the clients making them good debtors since repayment is considered as a religious obligation. Comparative advantages have also been dealt by Ahmad e.t. al [42] by concluding that Islamic micro financing had advantages over conventional micro financing with respect to its basic principle of interest-free loan, the elimination of *riba*, having a more varied source of funding and its ability to encompass the hard core poor. According to them this basic principle actually is a better tool for eradicating poverty and helping small business develop. This is also indicated in the comparative studies done by Abdelkader and Salem [7]. Another study found clients having longer duration of Islamic micro financing have greater possibility of having better business and having higher income as well as live in better economic condition [43].

According to Abdul Rahman [44], Islamic Microfinance has an important role for promoting socio-economic development of the poor and small entrepreneurs without charging interest (*riba*). Given the moral and ethical attributes of Islamic financing schemes, micro entrepreneurs will be motivated to succeed. Islamic Micro finance institutions deal with the family (via women) instead of just targeting women. By this approach it mitigates the adverse selection and moral hazard problems resulting from the fact that the intended use and user are different from actual use and user of funds respectively. Moreover, as Islamic modes of financing involve a real transaction, the moral hazard problem arising from the use of funds for purposes other than those intended is to a large extent eliminated. Using this strategy the problems arising from conventional microfinance is to a large extent eliminated [41, 45]. Abdul Rahim [46] discusses about *qardhul hasan*, *Murabahah* and *ijarah*

schemes which are beneficial to ensure the capital needs for potential micro entrepreneurs He further mentioned that schemes such as mudarabah and musharakah, have great potentials for in order to share risk among the microentrepreneurs. CGAP[40] gives a description of the different modes as below:

- Murabaha Sale (cost plus markup sale contract): This is basically a contract where the bank purchases a particular asset or raw material and charges a markup on the cost price.
- Musharaka and Mudaraba (profit and loss sharing): This is basically an equity based mode of financing and comprises of sharing profit and loss.
- Ijarah (leasing contract): This is similar to rental contract. In Ijarah the bank leases out an asset that is used by the client. It could be any asset or machine.

3. Conceptual Framework

The conceptual framework in Fig 1 provides an idea of how Islamic microfinance can aid in enhancing women entrepreneurship through customizing different modes and create successful socio economic development of the entrepreneur.

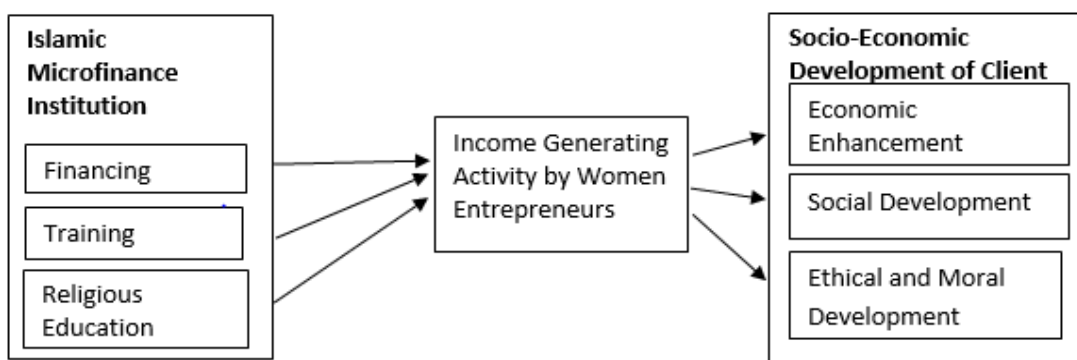


Fig 1. Conceptual Framework for improving women entrepreneurship

4. Conclusion

Enhancing women entrepreneurship is a crucial agenda to attain sustainable development. Though women in Bangladesh have shown signs of economic involvement, they are yet targets of violence and assaults. To enhance gender equity and women participation, women empowerment seems vital. Although conventional microfinance has been used as a tool to develop women entrepreneurship, it has its shortcomings. In this regard Islamic microfinance can serve better as it provides more than finance and even customized the financial needs with its modes. Moreover by going for partnership relation it ensures growth in equity and reduced debt burden for women entrepreneurs.

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