Case Study

Reverse Gender Gap in SME Finance?

Evidence from Bangladesh

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The narrative around female entrepreneurship typically revolves around the constraints women-owned businesses face in comparison to men-owned businesses, particularly in developing economies. For example, ample evidence from firm surveys and audit studies shows women-owned business face significant gaps in access to finance: they receive lower loan approval rates, smaller loan amounts, and higher interest rates than their male-owned counterparts, after controlling for firm characteristics.[1]

A slightly more unconventional way of looking at this is from the supply side. Few researchers have studied proprietary databases of financial institutions to understand how loans are disbursed to businesses and look for evidence of gender gaps from that angle. Two exceptions are Agier and Szafarz (2012), who examine administrative data on urban formal and informal microbusinesses from a Brazilian microfinance institution, and Chen, Li, and Lai (2017) who use data from

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1 See Alibhai et al. (2019) for Turkey; Grover and Viollaz (2025) for 61 countries; Montoya et al. (2020) for Chile; Muravyev, Talavera, and Schäfer (2009) for 34 countries in ECA; Presbitero, Rabellotti, and Piras (2014) for Barbados, Jamaica, and Trinidad and Tobago; and Wellalage and Thrikawala (2021) for 22 developing countries.

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one of the largest peer-to-peer lending platforms in China. An advantage of using administrative data is that it covers a larger sample of firms than most surveys. It may also include more reliable information on loan terms and business characteristics than surveys that depend on respondents' recall and cooperation.

While the literature provides evidence on both formal and informal firms, the aim of this note is to add to the body of evidence on gender gaps in access to finance for formal firms, using administrative data to compare financing terms and loan approval rates for men- and women-owned firms. The data was provided as part of a collaborative partnership with an IFC client in Bangladesh, BRAC Bank PLC (BRAC Bank).

Enabling environment for women-owned businesses in Bangladesh

Since 2014, Bank of Bangladesh has put in place policies and subsidies for financial institutions to incentivize lending to women-owned firms.[2] Among an extensive set of policies, one example is that financial institutions should target having at least 10 percent of woman-owned firms in their loan portfolio.[3] Loans to women-owned firms are also subsidized through a set of financial instruments (i.e., interest rate reimbursements, refinance windows, etc.) that incentivize institutions to lend to women at more favorable terms.

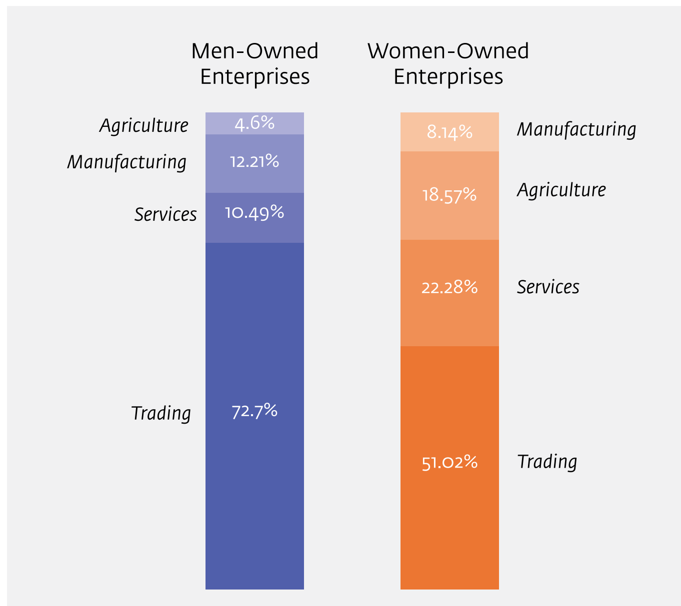
At the financial institution level, BRAC Bank provides technical assistance to informal women-owned small- and medium-sized enterprises (WSMEs), which it estimates constitute 80 percent of new, formal WSME clients. These clients were informal prior to obtaining a loan from BRAC Bank, and they received technical assistance from bank relationship officers on the formalization process to become eligible for a loan. Relationship officers refer clients without a trade or business license to the appropriate authorities and accompany them to the office if needed. If a firm does not have an electronic Taxpayer Identification Number (eTIN) and proof of tax return submission, which are required for formal loans, the officers can help it register the eTIN via the National Board of Revenue website and print the eTIN as proof. For tax return submission, the officers connect a borrower with a tax lawyer or accountant.

Administrative Data from BRAC Bank

Our data covers firms that applied for a Small and Medium Enterprise (SME) loan from BRAC Bank in 2021 or 2022 and includes business characteristics collected during the screening of loan applications. For businesses accepted for financing, it also includes loan terms, including size, maturity, and interest rate.

WSMEs account for only 5.45 percent of accepted firms, and 6.93 percent of rejected firms.[4] They are concentrated in the trading, services, and agriculture sectors, while a smaller percentage is found in the manufacturing sector (see Figure 1). The top two sub-sectors for WSMEs are farming and accommodation rentals for garment factory workers. In contrast, the top two sub-sectors for male-owned businesses are readymade garments and grocery.

Figure 1: WSME Sectors of Concentration



2 A summary of these policies is available at https://www.bb.org.bd/smeportal/wepolicy_updated.php

3 Another example is that financial institutions are provided access to a refinance facility from Bank of Bangladesh against disbursed loans to WSMEs at a lower rate of interest (3 percent) with an interest ceiling of 7 percent for loans to WSMEs (Source: SMESPD Circular Letter No.-02, Date-07/05/2020).

4 Sex of owner is defined based on majority ownership (more than 50 percent). The data are averages for 2021 and 2022. At the end of 2022, the percentage of WSMEs was 6.33 percent.

Gender Differences in Acceptance Rates

We first examine gender differences in loan acceptance rates. The rate for WSMEs is 78 percent, compared to 82 percent for their men-owned counterparts. Acceptance rates are calculated based on applications recorded in BRAC Bank's systems. Applications that don't pass initial quality checks are not entered into the system.

The difference between the acceptance rate for WSMEs and men-owned firms is statistically significant at the 1 percent level after controlling for requested amount, proprietorship, and sector. However, when we additionally control for the share of SMEs that are new clients, the difference in acceptance rates is smaller and no longer statistically significant. This suggests WSMEs have a lower acceptance rate than men-owned firms not because they are women-owned, but because they are more likely to be new clients of BRAC Bank.

Characteristics of accepted businesses

Notably, the accepted WSMEs in the sample were more profitable than their men-owned counterparts at the time of loan origination (Table 1). They were also more likely to own land, have higher total assets, and lower total liabilities. WSMEs that received loans were also on average younger (in terms of business age) and had slightly fewer employees. About an equal percentage of women and men firm owners had obtained a college degree or higher (12 percent). No fewer than 71 percent of WSMEs received BRAC loans for the first time, while the percentage for male-owned businesses was only 47 percent. The percentage of borrowers with a credit history was slightly higher among men (77 percent) than women (74 percent).

It is not clear why accepted WSMEs had better business performance than their male counterparts. One reason could be that only the most successful WSMEs formalize and apply for loans, which would be in line with the small share of women in the sample. However, this point deserves further investigation in future studies.

Table 1: Characteristics of Accepted Businesses by Gender

	Men-owned (mean)	Women-owned (mean)
Number of existing employees	3.6	3.1***
Business age (years)	10.1	7***
Share that own land	28%	53%***
Net profit margin	0.1	0.2***
Total assets (million BDT)	9.5	9.9**
Total liabilities (million BDT)	1.4	0.95***
Share with college education or above	11%	12%***
Share that are new clients	47%	71%***
Prior credit history	77%	74%***
Maximum number of observations	189,768	10,950

*Note: This table summarizes accepted businesses in files for 2021 and 2022. *** $p<0.01$, ** $p<0.05$, * $p<0.1$ represent the statistical significance for the F-test of equality of means across men-owned and women-owned firms. For example, with $p<0.01$, there is a less than 1 percent chance of observing the different means for men-owned and women-owned firms if there was no true difference between them. One BDT is 0.011 USD.*

A Reverse Gender Gap in Loan Terms

When looking at gender gaps in loan terms for those who obtained loans from BRAC Bank, we found that, on average, WSMEs received loans with larger sizes, longer tenors, and lower interest rates than their man-owned counterparts (Table 2). This finding may not be surprising since the previous table showed WSMEs displayed better business performance than their male counterparts.

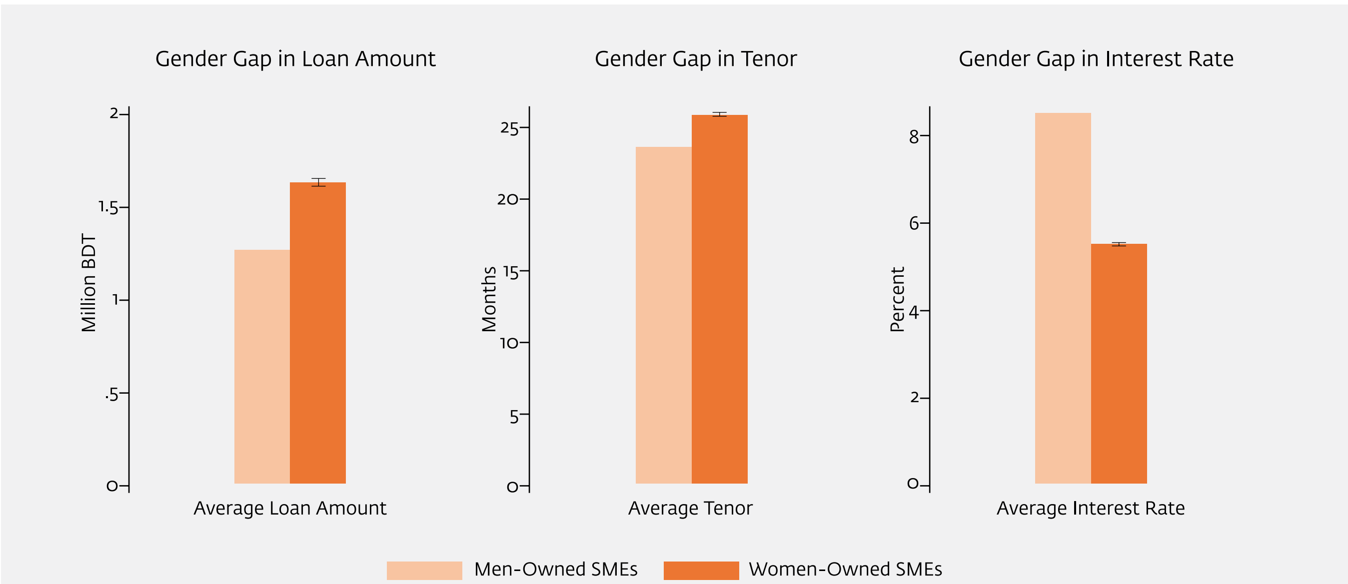
Table 2: Loan Terms of Accepted Businesses by Gender

	Men-owned (mean)	Women-owned (mean)
Loan amount (million BDT)	1.27	1.49
Loan tenor (months)	23.41	28.35
Interest rate (%)	8.5	5.4
Maximum number of observations	189,768	10,950

Note: Accepted loan applications only. One BDT is 0.011 USD.

To account for business performance, as well as other factors that could influence both loan terms and correlate with gender of ownership, we control for various observable characteristics at loan origin. The results still show that gender of owner is a significant factor in determining loan terms (Figure 2). That is, independent of other firm-level characteristics, BRAC Bank extended better loan terms to women-owned businesses. Specifically, we find that compared to men-owned firms, WSMEs received higher loan sizes by about 362,000 BDT (about US$3,000), loans with longer maturity terms by 2.3 months, and 3 percent lower interest rates on average.

Figure 2: Reverse Gender Gap in Loan Terms



Note: Accepted loan applications only. The light orange bars show the average loan terms for men-owned SMEs. The dark orange bars show these averages plus the coefficient on an indicator variable for being a WSME from regressions of loan terms on the WSME indicator and business age, profits, years in premise, employees, assets, liabilities, credit history, new client status, land ownership, sector-fixed effects, and year-fixed effects. One BDT is 0.011 USD.

The favorable policies for lending to WSMEs may contribute to the reverse gender gap observed in SME loan terms. However, we cannot directly measure the effect of these policies, in part because we do not have data for the period before the policies were in place.

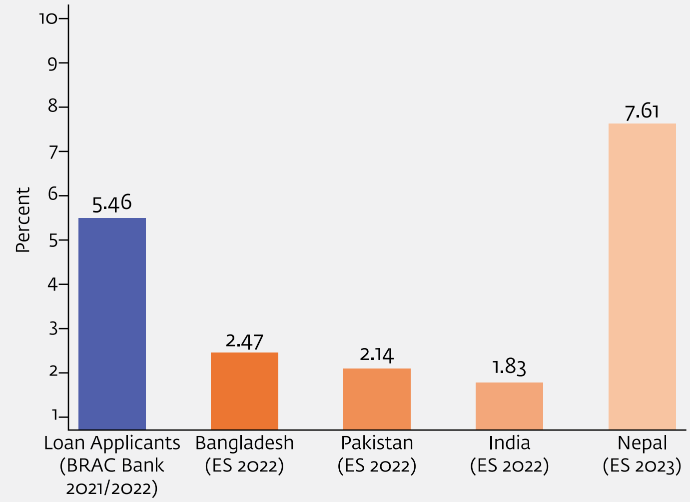
We also did additional tests looking at the interaction between being a new client and a woman business owner. The analysis showed that while loan terms are favorable for women clients in general, they are even more favorable to women who are new clients. This pattern could help BRAC Bank attract more WSME borrowers.

Why Are There Not More Women in the Data?

The striking conclusion from our analysis is that WSMEs receive better loan terms than men-owned firms, but still make up only a small fraction of loan applications. This raises the question whether, despite the large sample, we are missing a big share of WSMEs in Bangladesh.

To get a better sense of the gender composition of SMEs in Bangladesh, we looked at the 2022 Enterprise Survey (ES), a nationally representative survey of formal firms with five or more employees.[5] As shown in Figure 3, the percentage of formal women-owned firms in the ES (2.47 percent) is even lower than the percentage of loan applications from WSMEs in BRAC Bank's data (5.46 percent). The number from the ES for Bangladesh is consistent with ES data for other South Asian countries, including Pakistan (2022), India (2022) and Nepal (2023), which have 2.14 percent, 1.83 percent, and 7.61 percent of formal women-owned firms, respectively.

Figure 3: Comparative Shares of WSMEs



Note: BRAC data is for SME loan applicants in 2021 and 2022. The rest of the data is from the latest available World Bank Enterprise Surveys, which are nationally representative of formal firms with five or more employees.

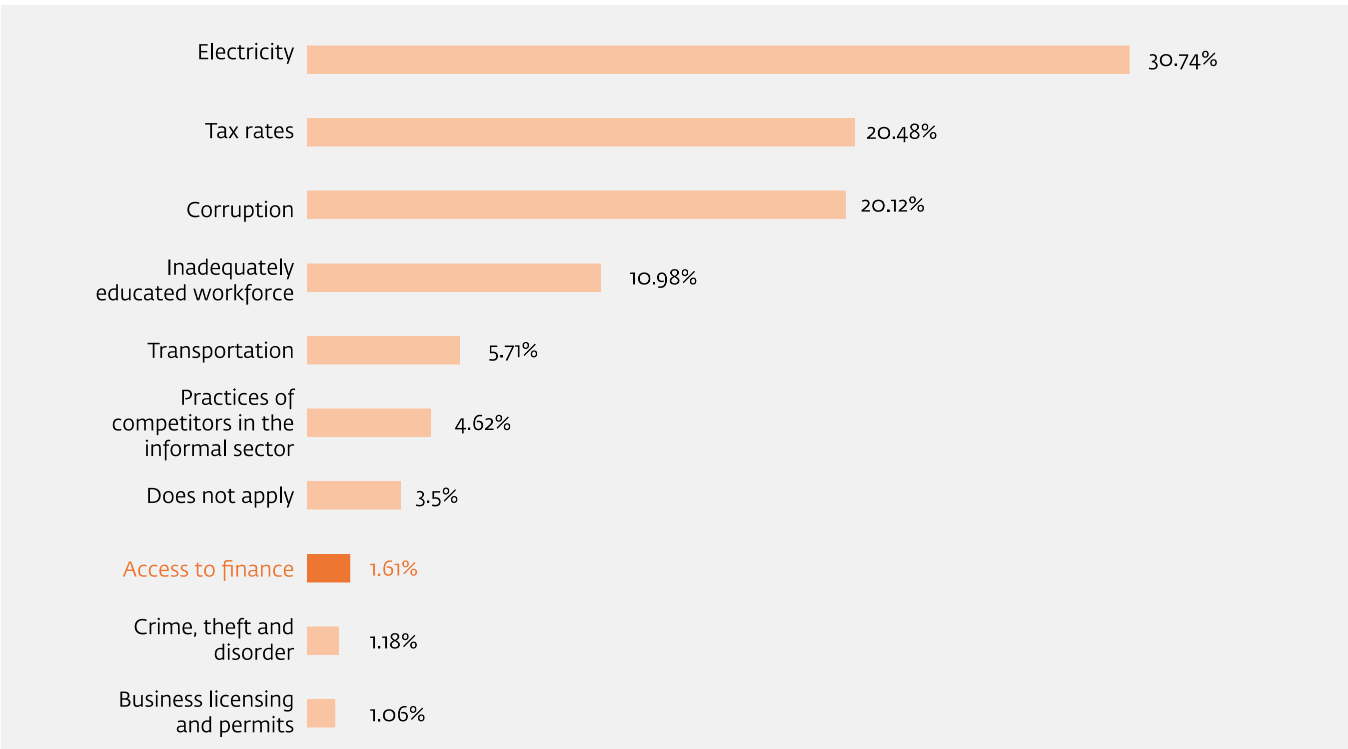
It is clear women make up a small percentage of the loan applicants (and loans) since they make up a small share of formal SMEs in Bangladesh. While there may be a larger share of women-owned firms in the informal sector, or among smaller firms, these firms are less relevant for our analysis since the SME loans provided by BRAC Bank are intended for formal, established businesses.

5 The share of formal WSMEs may be larger for businesses with less than five employees, but we do not have data on this segment.

Policy Implications

WSMEs in Bangladesh receive better loan terms than their male counterparts, suggesting that access to finance may not be a major obstacle for formal WSMEs in the country. This conclusion is consistent with 2022 ES data, which shows that only 1.61 percent of formal WSMEs reported access to finance is their main obstacle (Figure 4).[6]

Figure 4: Main Obstacles for Women-Owned Businesses in Bangladesh



Source: 2022 Enterprise Survey, World Bank
Note: Percentages are calculated using weights according to median eligibility of ES surveys.

At the same time, women make up only a small share of SME loans and formal firms. Challenges for WSMEs in Bangladesh thus seem to be at the firm registration stage. Since WSMEs that register with the authorities must pay taxes, this option will only be viable for those on the cusp of formalization and who expect significant gains from receiving a loan.

We hope to obtain further insights on the gains from taking out a loan from our ongoing research with BRAC Bank, which aims to measure the effect on firm performance, and how it differs across men- and women-owned firms. Future research could shed further light on why women-owned firms formalize less than men-owned firms, even in an environment where they receive assistance via central bank policies and from financial institutions directly. Possible reasons could include sector, location, or social norms.

6 In comparison, 14.44 percent of male-owned businesses reported access to finance as a main obstacle.

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The Women Entrepreneurs Finance Initiative (We-Fi) is a collaborative partnership among the 14 governments that have made financial contributions, six multilateral development banks that serve as implementing partners, and other public and private stakeholders. We-Fi was formally established in October 2017 as a Financial Intermediary Fund hosted by the World Bank. We-Fi invests in programs and projects that help unlock billions of dollars in financing to address the full range of barriers facing women entrepreneurs—increasing access to finance, markets, technology, and mentoring, while strengthening policy, legal and regulatory frameworks. As one of the We-Fi Implementing Partners, IFC supports private sector clients with investment and advisory services to expand financial services and market access for women-owned/led firms, as well as increasing the capacity of women entrepreneurs to run high-growth businesses. For more information, visit www.we-fi.org.

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