Development Compilation

Bangladesh Institute of Professional Studies
https://bips.bd/journal
ISSN: 2072-3334 (Print), ISSN: 2663-1547 (Online)

Volume 19 | Issue 1 | Page: 147-1594 | July 20, 2026 | Article |

Challenges and Prospects of Women's Economic Empowerment through Microfinance in Rural Bangladesh

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HOW TO CITE

Chowdhury, A. K., & Haque, M. A. (2026). Challenges and prospects of women's economic empowerment through microfinance in rural Bangladesh. *Development Compilation, 19*(1), 147–159. https://bips.bd/journal

ARTICLE HISTORY

Received: 21 June 2026
Revised: 10 July 2026
Accepted: 13 July 2026
Available online: 20 July 2026

Abstract

Microfinance services typically provide microcredit (small loans) to low-income and poor individuals who often lack access to formal banking services. Microcredit helps women's empowerment and contributes to income-generating activities. However, the effectiveness of microfinance services for rural women's economic empowerment depends on context and remains controversial. This study aims to analyze the impact of microfinance on rural women in Sylhet and identify the challenges they face in utilizing microfinance effectively. The study employed a qualitative approach and utilized both primary and secondary data. Primary data were collected through in-depth interviews with twenty purposively selected women who took microfinance loans from Microfinance Institutions (MFIs) in Kanaighat Upazila, a sub-district of Sylhet District in Bangladesh. The findings revealed that some rural women benefited from microfinance loans, which enabled them to start small businesses and poultry farms, thereby improving their household economic conditions. However, some women faced challenges in utilizing loans effectively. Lack of control over loan use, difficulties repaying loans when funds are used for non-productive purposes, and the pressure of fixed repayment schedules are significant issues they experienced. Finally, this paper provides recommendations, including strong supervision of microfinance institutions, to ensure that microfinance actually provides women with economic empowerment in rural Bangladesh.

Keywords: Microfinance; Women's Economic Empowerment; Rural Women; Microfinance Institutions; Financial Inclusion..

1. Introduction

Microfinance has become a potent instrument for reducing poverty and advancing economic growth, particularly in developing countries like Bangladesh (Ahmed, 2009). It provides financial services such as savings accounts, insurance, and small loans to people who have historically lacked access to official financial systems, thereby empowering marginalized groups, especially women (Mia et al., 2019). Economically empowering women through microfinance has gained increasing attention due to its potential to raise their independence and socioeconomic status. By giving women access to financial resources, microfinance fosters self-reliance and opens new avenues for economic participation, thereby challenging gender inequality in these communities (Khandaker, 2015; Duflo, 2016).

Microfinance initiatives are seen as an essential development strategy to decrease poverty and gender inequality through empowering rural women in Bangladesh (Ali, Islam, and Hatta, 2015). Over 37% of families in Bangladesh have access to microcredit, and there are over 1,000 MFIs operating in over 85,000 villages (Ali, Hatta, 2012). After using microfinance facilities, women's empowerment has significantly increased with regard to decisions about their children's education, visiting family, the decision on medical treatment, purchasing personal and household goods, managing their income, and feeling secure and powerful within the family (Rahman, Khanam, Nghiem, 2017). Despite these positive findings, not all studies have found similar outcomes regarding the effectiveness of microfinance in empowering women. Bangladesh has one of the highest rates of microfinance coverage worldwide, but the efficacy of microfinance initiatives is not thought to raise the standard of living for low-income Bangladeshi women (Ali, Hatta, 2012).

Financial independence of women not only improves life choices but also leads to broader social and economic development (Shafiullah and Jabeen, 2025). Women traditionally face limitations in accessing financial resources, which hamper their entrepreneurial opportunities and economic independence. Microfinance provides them with access to credit, enabling them to start small businesses, increase household income, and invest in education and healthcare. This empowerment improves their decision-making power and exercise control over families and communities (Nasrin, 2026). Furthermore, when women are economically empowered, they become active agents of change, leading to positive socio-economic transformations (Akhter & Cheng, 2020). Kabeer (2016) opines that women's participation in microfinance not only benefits individual households but also contributes to wider community prosperity and poverty reduction. As a result, women empowerment through microfinance has become a critical goal for sustainable development in Bangladesh, particularly in rural areas (Akhter & Cheng, 2020).

Compared to other sources, the majority of women with only a primary education began their businesses by obtaining loans from microfinance institutions (Assefa and Kegne, 2023). In addition to providing financial support to their families, they raised their income, which had a favorable effect on other aspects of everyday life. The success of expanding the family's decision-making role indicates that microfinance programs are strongly linked to the development of socio-economic empowerment of women (Islam, 2016).

Women's political and social engagement increases through participation in microcredit initiatives (Habib and Jubb, 2012). The elimination of difficult situations and problems is aided by the political empowerment of women. Microcredit helps women develop their competence and self-worth while boosting their self-confidence. According to the study (Dorice, 2025), microfinance activities enhance family dynamics. Women who are microcredit members are more willing to be active in their personal lives, take out loans, spend microcredit funds, vote in elections, and buy or sell goods.

In the face of conflicting opinions from academics on the enabling impact of microfinance, approximately 30 million married women in Bangladesh use this powerful anti-poverty strategy (Islam, 2020). Using propensity score matching techniques, 6,150 married women aged 15 to 49 who participated in microfinance were matched to a control group to assess their empowerment (Murshid, 2018). The idea that microfinance involvement has a beneficial effect on women's empowerment is called into question because women who participated in microfinance did not differ statistically at the 0.05 level from those who did not (Ibid).

Moreover, several studies (e.g. Hossain, Hosen, Pek and Loh, 2024) have identified significant challenges that limit its effectiveness. Although women are the registered borrowers, they have limited authority over the utilization of these loans. Decisions regarding the use of the money are often made by male family members, especially their husbands (Nawaz, 2015). Additionally, a study conducted in Sylhet found that regular loan repayments impose an additional financial burden on many borrowers because businesses fail to generate expected returns. Sometimes they borrow from other sources to repay existing loans, which increases their financial vulnerability (Bhattacharjee, 2016). These obstacles prevent microfinance from reaching its full potential in Bangladesh in terms of advancing gender equality.

Over the last few decades, the relationship between microfinance and women's economic empowerment has gained significant attention in literatures. Numerous studies (e.g. Rahman, Huq and Hossen, 2023; Nath et al., 2024) found that access to microfinance contributes to women's income generation, decision-making power, entrepreneurship, and overall socio-economic empowerment. However, empirical findings remain mixed. Although previous studies have extensively examined the relationship between microfinance and women's empowerment in Bangladesh, relatively limited qualitative research has explored how rural women in Sylhet experience the opportunities and challenges associated with microfinance. These challenges include cultural barriers, lack of financial literacy, and limited access to collateral. Additionally, there is limited research on how microfinance institutions can better tailor their services to the unique needs of women in Bangladesh. A deeper understanding of these barriers is crucial for improving the effectiveness of microfinance programs in achieving women's economic opportunity and gender equality (Shohel et al., 2023). Therefore, this study aims to examine the impact of microfinance on women's economic empowerment in rural Sylhet, Bangladesh, and to identify the challenges women face in effectively utilizing microfinance.

2. Materials and Methods

This qualitative study explores the effects of microfinance on women's economic empowerment in rural Sylhet. A qualitative approach was adopted to allow for a thorough understanding of participants' personal experiences, insights, and challenges related to microfinance. Both primary and secondary data were utilized in this study.

Data was collected using an unstructured questionnaire. With the study's objectives in mind, the questionnaire was carefully designed and prepared using both open-ended questions. The primary data was collected through in-depth interviews. The interviews were conducted in the local dialect and then translated and transcribed into English. The number of participants was twenty rural women who had used microfinance. The participants were selected purposively. Secondary data were collected from various published papers, journal articles, books, and online publications.

The phenomenological design used in this study aims to understand how people experience a particular phenomenon, in this case, microfinance. The phenomenological technique is appropriate as it investigates how women understand and interpret their involvement with microfinance, including the challenges they face. However, this study intends to uncover the deeper significance and implications of microfinance on their economic empowerment by examining their lived experiences.

The findings of this study were analyzed thematically. This approach offered a more thorough examination of how microfinance contributes to women's economic empowerment, illuminating the difficulties they face and possible solutions.

3. Conceptual Framework: Microfinance and Women's Empowerment

Microfinance is a community-based strategy to provide financial support to the poor and underprivileged in order to improve their living conditions (SEEP, 2006). Microfinance provides low-income families and individuals without access to standard banking services with modest loans, also known as microcredit. Underprivileged groups in developing nations are empowered to participate in microbusinesses and create steady revenue streams thanks to these collateral-free loans (Hamid & Nisser, 2017). Typically, microfinance institutions (MFIs) target women borrowers, providing them with management and business training to enhance their economic prospects. Microfinance offers a range of financial services, such as microcredit, micro-savings, and micro-insurance, and is therefore seen as an essential instrument for reducing poverty and promoting rural development. Particularly for the most disadvantaged groups, MFIs are essential in fostering self-employment, entrepreneurship, and economic empowerment (Hernandez, 2019).

Empowerment is the capacity to make independent decisions and translate them into observable outcomes, encompassing choices regarding family planning, education, economic pursuits, and domestic duties (Ahmed, 2009; Ali & Hatta, 2012). It signifies having access to useful resources that improve income and decision-making capacities. Although there are several meanings of empowerment, it basically means having the ability to choose and act as one pleases. Historically, women have fought for empowerment, with progress varying across regions. Making decisions and using one's natural ability to overcome obstacles are two aspects of the dynamic process of empowerment. It promotes independence, self-worth, and the ability to transform society, which advances gender equality and sustainable development objectives.

The microfinance sector is intended to empower women economically, so it provides capital and support to rural women to help them secure a steady income for their families (Tandon, 2016). According to Mudakappa (2014), several women have been microfinance clients in various nations. According to Khanday and others (2015), women's economic development led to respect and a sense of self-worth among their microfinance recipients. Microfinance professionals provide funding to women, enabling them to launch new businesses and grow their current ones. Microfinance institutions' credit and training services give women confidence and help them participate more actively in household and community affairs.

By enhancing labor productivity, raising wages, and offering opportunities for self-employment, microfinance institutions empower women economically (UN, 2011). Microfinance impact is mostly assessed through long-term changes in household spending, employment rates, and independent income. The impact of microfinance institutions' services can also be directly assessed by focusing on increases in indicators such as housing patterns, fertility rates, and literacy rates. The community as a whole benefits from changes in business owners' income and opportunities for self-employment (Ertu & Tilahun, 2022).

Women engaged in microfinance programs, which increase their economic independence and access to capital, often play leadership roles in their communities and societies. MFIs' capacity-building programs give women even greater authority to participate in community activities and decision-making processes.

In Bangladesh, the member-based Microfinance Institutions (MFIs) constitute a rapidly expanding segment of the Rural Financial Market (RFM). A number of formal financial institutions, including specialized banks and nationalized commercial banks, as well as specialized government agencies and non-governmental organizations (NGOs), implement microcredit programs (MCPs) in Bangladesh. The MFI sector experienced tremendous expansion in the 1990s and continues to do so, in both the total number of MFIs and their membership.

Although more than a thousand institutions operate microcredit programs, a small group of 10 major MFIs, along with Grameen Bank, dominate the sector. These institutions collectively hold 87% of the total savings and account for 81% of the sector's outstanding loans (MFIs, Bangladesh Bank). Microcredit services enable low-income individuals to engage in various income-generating activities, benefiting approximately 30 million poor people directly (Islam & Hossain, 2013).

Table 1: 10 MFIs Based on Number of Branches (2023-24)

Position	Name of MFIs with District	Number of Branches (June 2024)	Market Share (in %)
1	ASA, Dhaka	3,073	11.28
2	BRAC, Dhaka	2,913	10.69
3	BURO Bangladesh, Dhaka	1,410	5.18
4	United Development Initiatives for Programmed Actions (UDDIPAN), Dhaka	1,000	3.67
5	Thengamara Mohila Sobuj Sangha (TMSS), Dhaka	963	3.54
6	Society for Social Service (SSS), Tangail	658	2.42
7	Jagorani Chakra Foundation, Jashore	550	2.02
8	Shakti Foundation for Disadvantaged Women, Dhaka	530	1.95
9	Proshika Manobik Unnayan	444	1.63

	Kendra, Dhaka		
10	Resource Integration Centre (RIC), Dhaka	422	1.55

Source: Bangladesh Microfinance Statistics 2023-24

4. Findings

Microfinance has been recognized as a powerful tool for enhancing women's empowerment in Bangladesh. By facilitating women's access to financial resources, microfinance loans enable them to engage in income-generating activities, contribute to household finances, and enhance their socio-economic status (Bosu, 2024). A good number of microfinance institutions (MFIs), including BRAC and ASA, play a significant role in these initiatives. However, contextual elements such as program design, sociocultural norms, and geographic location might affect the effectiveness of microfinance programs (Nawaz, 2019; Hasnat, 2019). Because microfinance makes it easier to generate income, improves financial independence, and elevates social status, it has surely helped empower women in Bangladesh. This section discusses the main findings of the study.

4.1 Positive Aspects

4.1.1 Economic Empowerment and Income Generation

Microfinance facilitates women's participation in economic activities, which enables them to start small enterprises and contribute to household income. Research shows that women's financial independence has been greatly increased by microfinance initiatives like those run by BRAC in Sylhet (Akter and Ahmad, 2020).

Reshma Begum (Pseudo name), a respondent of this study recognized that-

"I took 40,000 Taka loan from BRAC Bank and bought a sewing machine along with some poultry. Besides I utilized some loans to repay debts which had been taken earlier from neighbors and relatives. Now, I am in a relatively stable financial condition (interview conducted on 27 March 2025)."

4.1.2 Improved Livelihood and Social Status

Access to microcredit has been linked to an improved standard of living among rural women. A study shows that microfinance enhances women's decision-making power and strengthens their roles within their households and communities (Zohra and Brahim, 2024).

Reshma Begum (Pseudo name) added that

"Since I bought a sewing machine and some poultry, I have been earning enough to cover my monthly expenses. I can now support my children's education, and we are living more comfortably than before."

4.1.3 Sustainability of Informal Economic Activities

Women who engaged in informal businesses often struggle to maintain their operations due to financial limitations. In order to ensure long-term economic viability, microcredit schemes provide them the money they need to carry on and grow their businesses (Juma and Biswas, 2023).

Another respondent claimed that

"Last year, I took a loan of 25,000 taka from BRAC Bank. I gave some of the money to my husband to repair the boat, and with the rest of the money I started a poultry farm. Now I have been able to make the farm a little bigger than before."

4.1.4 Enhancement of Self-Confidence and Decision-Making Abilities

It has been demonstrated that women's self-confidence increases when they participate in microfinance programs, enabling them to take a more active role in community development and household financial decisions (Pervin, Ismail and Noman, 2022).

Saleha Banu (Pseudo name), another respondent of the study who took microfinance and started a small business shared that

"Earlier, my husband used to make all the decisions. I had no say in anything. Now I have my own income and I can support my children's education expenses and household expenses., so, my husband and my in-laws also give importance to what I say."

4.2 Negative Aspects

4.2.1 Limited Control Over Loan Utilization

Many women in rural areas lack full control over the loans they receive. In patriarchal societies, Male family members frequently seize control of the borrowed money, leaving women to repay the loan without personally benefiting from it. This undermines the goal of women's economic empowerment (Banerjee, Duflo, Glennester, and Kinnan, 2015).

One respondent Salma Begum (pseudo name) mentioned that she faced significant difficulty in managing and controlling the loan they received from BRAC Bank. She stated that

"I took a microcredit loan for my husband so he could buy an irrigation machine. Initially, I believed it would benefit our household, but now he refuses to give me any money to repay the debt. I am struggling to manage the repayments on my own, and this has put me in a very difficult situation. Instead of gaining financial independence, I feel burdened with debt that I cannot repay alone (interview conducted on 28 March 2025)."

She also added that

"Whenever I take a loan to start a small business like a poultry farm or to buy a sewing machine, my husband forcefully takes it."

4.2.2 Increased Financial Burden and Stress

Microfinance loans increase financial burden and stress for rural women as there is the pressure of weekly or monthly repayments. Mostly this burden of repayment falls totally on women, even if when their husband or family members use this loan for their own benefits. Rural women who are struggling financially are often trapped in a cycle of debt as they continuously take out more loans from other lenders in order to pay back their current debt (Maldonado, Gallego, & Montero, 2024).

A participant Shafia Khanom (pseudo name) claimed that

"My husband forced me to take a loan, claiming he wanted to start a business that would benefit our family. Trusting him, I agreed and borrowed the money. However, instead of using it for business, he squandered it on gambling. Now, I am left with the burden of repaying the debt alone, struggling to manage our household expenses while he refuses to take any responsibility (interview conducted on 27 March 2025)."

This financial burden increases stress and, in some cases, worsens their economic situation rather than improving it.

4.2.3 Misuse of Microfinance

Some women misuse the loan funds for non-productive purposes, such as purchasing land or funding family gatherings (like weddings), rather than investing in income-generating activities. Microcredit became a burden for them since they could not get anything back after investing money in such problems (Bhattacharjee, 2016).

A respondent shared that

"I took a microcredit loan to build a house and arrange my daughter's marriage. Since these do not generate any income, repaying the loan on a weekly basis has become difficult. If I had invested in something productive, I wouldn't be facing such hardship (interview conducted on 27 March 2025)."

Similarly, another respondent Sayra Banu (pseudo name) said that

"I borrowed money to build my house. Later, I am repaying the debt by borrowing 50,000 taka from BRAC Bank. I have taken loans many times from BRAC Bank. I take loans mostly to repay the debts because I can get loans with low interest."

Several respondents (14 of 20 women) reported that they frequently took microcredit to repay existing debts, which create a cycle of debt.

One of the respondents shared that

"I took one lakh taka from BRAC bank. I gave it to Safia Apa (pseudo name). She cannot pay the loan installments so the bank does not give her the loan."

4.2.4 Social and Cultural barriers

Women in conservative societies face restrictions on their financial autonomy, limiting their ability to make independent financial decisions. Family pressures and societal norms hinder the effective utilization of microfinance (Nawaz, 2019; Hasnat, 2019). Social and cultural attitude is a great barrier for rural women to start their own business.

Joynob Akter (pseudo name) claimed that

"I took a loan of 25000 Taka from ASA bank to start a small business. But my husband and in-laws don't want me to go out and do business. So I couldn't start something on my own. My husband took that money and used it in repairing the house. But I had to repay the loan."

4.3 Prospects

The purpose of microfinance is to help disadvantaged communities advance their business ventures and achieve economic development. Researchers and concerned business people are keeping an eye on the growing population of female entrepreneurs in Bangladesh. Various international organizations, government agencies, NGOs, private institutions, and charities have adopted programs and policies to encourage and motivate women entrepreneurs. They have taken initiatives to strengthen women's networks, enact laws to support the development of advanced startups and businesses, or organize programs to enhance entrepreneurial skills. They all agree that women entrepreneurs are essential to a nation's development, well-being, and progress. Globally, women are less likely to become entrepreneurs than men (Global Entrepreneurship Monitor, 2025). Access to finance is only one aspect of microfinance. Its main objective is to enable women to take control of their own livelihoods. It is about overcoming women's poverty and vulnerability. According to this study, women are increasing their political and economic influence in their homes, villages, and countries. Although both public and private microfinance initiatives have improved many aspects of rural life, such as health and education, the impact of private initiatives has been greater. Accordingly, the success rate of skill acquisition in NGO-based microfinance programs is 30% higher than that of government programs (Maria, 2024).

NGO-based projects have shown greater social connectivity, flexible repayment terms, and regional expertise, which have increased their effectiveness in achieving their objectives. For instance, Grameen Bank, ASA, IDF, BRAC, Proshika, Green Hill, and YPSA are all directly involved in women's empowerment. The efforts of NGOs to raise awareness about microfinance and increase understanding among women residents have changed the situation. Women's personal, family, social, and community involvement and awareness have increased somewhat compared to those of previous borrowers. After receiving the loan, women's sources of income change dramatically, as they start their own businesses and participate in various service initiatives. Microfinance has given women hope and changed their outlook on life (Said, Ragab & Ragheb, 2025). One of the respondents of the study shared that – *"I have started a business with the BRAC Bank microcredit loan. I have gained my own source of income and can now contribute to my family expenses. Microfinance changed my way of thinking and now I feel more confident about my future."*

A study reported that microfinance positively impacted on families' economic situation through business expansion and debt repayment (Bosu, 2024). Providing a financial foundation also improves women's social, personal, and collective lives. Therefore, microfinance help poor women meet their daily needs and strengthen their position, thereby supporting the development of women entrepreneurs (Abebe & Kegne, 2023).

5. Discussion

The impact of microfinance varies from region to region; socio-cultural factors, infrastructure, and market access influence its effectiveness. Studies show that microfinance programs in suburban areas face challenges in achieving the same level of impact as those in urban centers (Juma and Biswas, 2023). Besides, Access to microfinance alone is insufficient for sustainable empowerment. Women also require business training, market linkages, and legal protections to maximize the benefits of financial inclusion (Hashim, Yusof, and Ramley, 2023). Access to financial resources by women can sometimes lead to tensions within households, especially in patriarchal settings where shifts in economic power dynamics are resisted. Such tensions can manifest as conflicts or even increased instances of domestic violence. On the other hand, many rural women have limited exposure to financial education, making it challenging for them to make informed decisions regarding investments and business operations. This gap can result in suboptimal use of loan funds and difficulties in managing repayments (Nawaz, 2015).

Even though microfinance programs that empower rural women in Bangladesh are becoming more prevalent, there are still major challenges to overcome in order to get and make efficient use of these financial services. Numerous studies highlight the fact that location acts as a moderating factor in the effectiveness of microfinance, suggesting that socioeconomic, geographic, and cultural barriers frequently determine whether women can meaningfully benefit from such programs (Gallego et al., 2024; Maldonado et al., 2024). One significant issue is the psychological strain that weekly loan repayment obligations place on many women, particularly those who lack financial literacy or abilities for earning a living (Bhattacharjee, 2016). Additionally, some borrowers are threatened by unlicensed lenders whose earnings are undercut by microcredit organizations (Bhattacharjee, 2016). In other cases, systemic vulnerabilities are highlighted when borrowers feel pressured to participate in immoral activities, such as lying about their income or taking out loans from moneylenders to pay back microfinance loans (Nawaz, 2019). These findings align with research emphasizing the complexity of empowerment and the need for conceptual frameworks to capture the multifaceted nature of women's experiences in microfinance. In the end, microfinance does not always equate to empowerment, even though it may provide financial inclusion. Programs must address social and gender-based barriers, offer financial literacy, and integrate contextual awareness in order to bring about comprehensive change (Mengstie, 2022).

6. Conclusion and Recommendations

Microfinance is seen as a crucial development approach for the welfare, advancement, and empowerment of women. In Bangladesh, women are developing day by day by becoming financially strong. And Microfinance has a big contribution to this process. Though women are gaining greater financial opportunities through microfinance institutions, they still face many challenges. At the neighborhood and state levels, women in Bangladesh face numerous obstacles, from sociopolitical marginalization to poverty, illiteracy, and irreligious patriarchy. The government ought to start a comprehensive program for women in the area that emphasizes improving their productivity and capacity building. They would be able to make a significant contribution to their own sense of empowerment as a result. Regretfully, there aren't enough highly qualified staff members in Bangladesh's government programs to effectively build capacity or support the empowerment of underprivileged women. Without a doubt, more fruitful outcomes will be achieved, and a significant process of empowering the poor will begin if the government establishes a distinct, comprehensive training or educational institution specifically for them. Also, the government should take the initiative to raise awareness among women of the need for empowerment.

Analyzing the potential of women entrepreneurs in Sylhet through microfinance for economic empowerment, this study provides some practical recommendations.

- Microfinance institutions should be easily accessible to women entrepreneurs so they can start their businesses with less capital.
- In order to enable women entrepreneurs to make business decisions, training and skill development initiatives should be integrated with financing.
- Market linkages and marketing support should be ensured for women entrepreneurs so that they can market their products/services easily.
- The monitoring and evaluation system of microfinance institutions needs to be more accountable so that borrowers actually benefit.
- Awareness programs need to be taken to change social and family attitudes so that women get social recognition as entrepreneurs.
- Training on digital transactions and e-commerce needs to be introduced for women so that they can take advantage of technology-based business opportunities.
- An integrated support framework should be developed for women entrepreneurs, where finance, advice and policy support are available together.

These recommendations, if effectively implemented, can address the structural and cultural limitations faced by rural women in Sylhet and similar contexts, thereby making microfinance a more inclusive and transformative tool for women's economic empowerment.

7 Acknowledgment

We acknowledge the contributions of the respondents of the Kanaighat Upazila of Sylhet District for providing necessary data for this research.

8 Statement and Declarations

Competing Interests

The authors have no competing interests

Author Contributions

- First Author: Conceptualization, Methodology, Data Collection, Formal Analysis, Preparing Original Draft
- Second Author: Supervision, Project Administration, Validation, Writing – Review & Editing

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