Rajagiri Management Journal
Volume 11, Issue 1, June 2017

Mapping the Credit Gap for Women Owned SMEs in India

Shailja Dixit[1] and Sana Moid[2]

Abstract

Lending to women-owned micro, small, and medium enterprises (MSMEs) is still unexplored when compared to lending to MSMEs in India. Due to a lack of segmental focus and with a higher perception of risk, formal financial institutions have not made much effort to understand this segment. The International Finance Corporation estimates that as many as 70% of women-owned SMEs in the formal sector in developing countries are unserved by financial institutions resulting in a financing gap of around $285 billion. For growth and development of nation it is mandatory to close the credit gap for women-owned SMEs across the developing world.

This paper aims to assess the credit gap in demand and supply of finance to women owned SMEs, to focus on the opportunity in serving women entrepreneurs, and present initiatives taken by financial institutions for improving access in India. The findings of a paper are based on secondary research and recommends potential interventions by financial institutions for closing the credit gap in women owned SMEs. It is concluded that improved access to credit is most impactful when coupled with strong institutional environments; efforts should be made to establish more robust institutions and favorable business conditions.

Keywords: Women Owned SMEs, Credit Gap, Economic Growth, Women Entrepreneurs

---

[1] Associate Professor, Amity Business School, Amity University, Lucknow Campus shailjadixit1@gmail.com, Ph: 8009999900
[2] Assistant Professor, Amity Business School, Amity University, Lucknow Campus sanamoid14@gmail.com, smoid@lko.amity.edu, Ph: 9335071165

Introduction:

Women entrepreneurs account for up to one third of all businesses operating in the formal economy world wide. However, majority of those in developing and transitioning economies are very small and micro enterprises, with less potential for growth. Apart from being under-represented in enterprises of all sizes, bigger the firm the less likely it is to be headed by a woman. Societal attitudes and norms inhibit women from even considering starting a business, while systemic barriers mean that many women entrepreneurs stay confined to very small businesses often operating in the informal economy.

ILO estimates that while 22 per cent of men's productive potential is underutilized, in case of women's it is as high as 50 per cent. Removing barriers, such as discriminatory property and inheritance laws, discriminatory customary laws, poor access to formal financial institutions, and time constraints due to family and household responsibilities, could create better opportunities for sustainable enterprises run by women. This in turn would result in women's economic empowerment and gender equality as well as job creation. Research asserts that Indian economy can accelerate if women entrepreneurs are permitted and encouraged to contribute in the growth story. There are nearly three million MSME's with full or partial female ownership. Collectively, these women-owned enterprises contribute 3.09 percent of industrial output and employ over 8 million people. Approximately, 78 percent of women enterprises belong to the services sector. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98 percent of women-owned businesses are currently micro-enterprises.

Access to finance is often cited as one of the primary obstacles that affect SMEs disproportionately (Ayyagari et al., 2012), and lack of data has made it very difficult to determine the exact size of the financing gap. Due to a lack of segmental focus and, perhaps, due to a higher perception of risk, formal financial institutions have made little effort to better understand this segment. Using data from the World Bank Enterprise Surveys (WBES) in 2010, IFC estimated the size of the global micro, small, and medium enterprise (MSME) financing and deposit gap, and the regional variations (Stein et al., 2010).

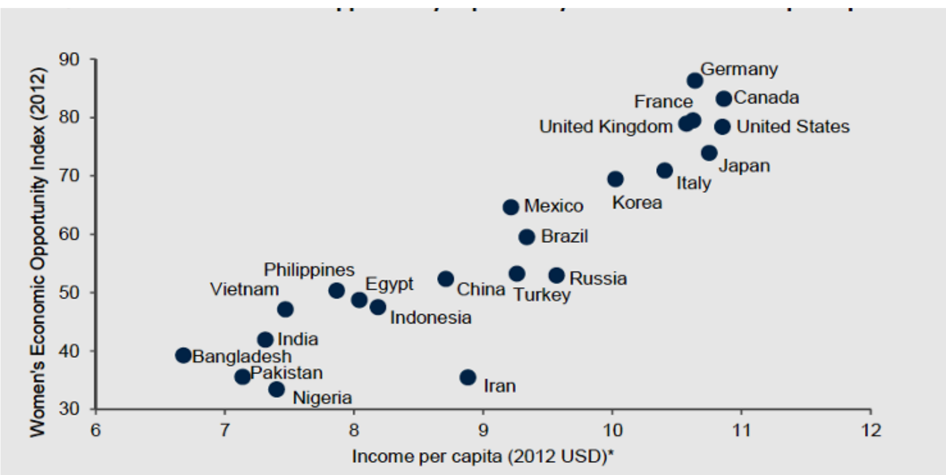
Women as Key Drivers for Economic Growth

Women's economic participation is a game-changer with the potential to transform entire economies and societies. Few nations have made women's economic participation, or womenomics, an integral part of his economic stimulus agenda. Yet it is reported that many women founders struggle to access the capital, technology, networks and knowledge that they need to start and grow their businesses.

While there have been some gains in female labor participation rates over the past few years, results vary dramatically by country, and overall there is still substantial room for improvement. Research has also shown that one of the best environments for investment in human capital is an environment where more income is in the hands of women. As female labor participation rates rise, countries can reap the benefit of a 'double dividend,' given that women are more likely than men to use their increased bargaining power to buy goods and services that improve the family's welfare. This increased bargaining power has the potential to create a virtuous cycle as female spending supports the development of human capital, which in turn will fuel economic growth in the years ahead.

Similarly, FMCG, Healthcare. PSU, Oil and Gas, Power, Realty and Telecommunication industries depart from Student's T distribution. Whereas, Telecommunication industry has no fit with the Johnson's SU distribution.

Graph 1: Women's Economic Opportunity



Women Owned SMEs in India: An Overview and Contribution towards economic growth

Around 3.01 million women-owned enterprises represent about 10 percent of all MSMEs in the country. Collectively, they contribute 3.09 percent of industrial output and employ over 8 million people. Approximately 78 percent of women enterprises belong to the services sector. Women entrepreneurship is largely skewed towards smaller sized firms, as almost 98percent of women-owned businesses are micro-enterprises. Approximately 90 percent of women-owned enterprises are inthe informal sector. Women's equal access and control over economic and financial resources is critical for achievement of gender equality and empowerment of women as well as equitable and sustainable economic growth and development.

Table 1: Geographical distribution of Women Owned MSME

Prevalence of women-owned business	State-wise share (percent)	Number of states/union territories (#)	State/union territories	Combined share (percent)
High	>10.00	4	Kerala, Karnataka, Tamil Nadu, West Bengal	51.9
Medium	5.00-10.00	2	Andhra Pradesh, Madhya Pradesh	11.5
Low	2.00-4.99	7	Rajasthan, Maharashtra, Punjab, Gujarat, Odisha	26.7
Very Low	<1.99	20	Rest of India	9.9

As with the rest of the sector, access to finance is the biggest barrier [8] to growth and development for women-owned MSMEs. As a result, there continues to be a heavy reliance on informal sources of finance for seed capital and working capital requirements. The funding sources for women-owned MSMEs are listed in Table 5

Table 2: Access to finance of women owned SMEs

Funding source	**Share (percent)**
Formal financial sources	3.1
Semi-formal financial sources	4.8
Self, family, friends or informal sources	92.1

Although the financing needs for women-owned enterprises are not radically different from the needs of male-owned enterprises,the level of financial exclusion is higher due to a combination of factors. Also, the social status of women and prevalent social norms in India influence perceptions of financial institutions and the ability of women entrepreneurs to access finance. The key demand and supply side constraints specific to women entrepreneurs' ability to access finance are outlined in table 3 below:

Table 3: Demand side and Supply side barriers in access to Finance

DEMAND SIDE	SUPPLY SIDE
• Limited financial awareness and understanding of financial products/ services: • Need for support from male family members: • Lack of confidence or hesitation to approach financial institutions:	• Perception of higher risk profile in the absence of collateral security and guarantee/support by male family member • No real attempt to tailor products/ services to suit the needs of the woman entrepreneur: • Perception that bank branches are unwelcoming to women customers: • High transaction costs given the small size of women-owned MSME firms: • Lack of reliable information about financial management makes the women entrepreneurs less attractive to financiers

Analysis of Access to Finance Gap for Women-owned Enterprises Estimating demand for financing for women-owned businesses

The small enterprises segment leads the demand for financing, followed by micro and medium enterprises. The total debt required by women-owned MSMEs is estimated at Indian rupees 6.10 trillion ($111 billion) and equity at Indian rupees 2.58trillion ($47 billion). Financing requirements by segment and the split between debt and equity by segment, is provided intable 8.

Table 4: Financing Requirement of Women Owned SMEs

	Total versus all women-owned businesses (percent)	Total demand in Indian rupees trillion ($ billion)	Demand Share (percent)	Debt demand in Indian rupees trillion ($ billion)	Equity demand in Indian rupees trillion ($ billion)
Micro	97.62	2.05 (37.36)	24	1.64 (29.89)	0.41 (7.47)
Small	2.37	6.42 (116.70)	74	4.31 (78.44)	2.10 (38.26)
Medium	0.01	0.21 (3.75)	2	0.14 (2.50)	0.07 (1.25)
TOTAL	**100.00**	**8.68 (157.80)**	**100**	**6.10 (110.82)**	**2.58 (46.98)**

Supply of finance to women-owned businesses

Total formal finance extended to women-owned MSMEs in 2012 was around Indian rupees 2.31 trillion ($42 billion). This credit supply originated from different types of financial institutions such as public sector banks, non-banking financial corporations, and self-help group-bank linkage programs. A breakdown of types of institutions financing women-owned MSMEs is given in table 9.

Table 5: Supply of finance to women owned MSMEs by different institutions

Source	Financing supply share (percent)
Public sector banks through microcredit	30
Public sector banks to small scale industries	38
Prime minister's Rozgar Yojana	2
Swarna Jayanti Shahari Rozgar Yojana	1
Swarna Jayanti Gram Swarozgar Yojana	4
Private sector banks	19
Foreign banks	5

Gender Lending Gap and Women-Owned Business

Formal sources of credit supply include public sector banks, non-banking financial companies, and self-help group-bank linkage programs. Approximately, 78 per cent of women enterprises belong to the services sector. Women entrepreneurship is largely concentrated towards smaller sized firms, as almost 98 per cent of the businesses are micro-enterprises. Together, these enterprises contribute approximately 3.09 per cent of industrial output. The lending gap for women-owned micro, small and medium enterprises (MSMEs) businesses in India is around Rs.6.37 lakh crore ($116 billion) as per a study by World Bank Group member IFC.

There are differences in the ways women and men SME owners approach, access and use credit for initiating and expand their businesses. In view of these differences, it should be a matter of importance to incorporate women-specific solutions into the system for improving credit access in the SME sector. Closing the credit gap requires:

More suitable credit terms offering loans with terms that are better aligned with the actual risk that women represent, rather than perceived risk, would make bank credit more attractive for female business owners. Offering alternative options for fulfilling collateral requirements, as well as long term loans for investment purposes rather than shorter-term loans to manage working capital, could also prove beneficial.

Better assessment of credit risk: In contradiction to some common belief, the experience of lending to women in developing countries through microfinance and other more traditional methods suggests that women are reliable borrowers with better repayment records. As such, means to assess the credit risk of women accurately at the individual level are needed to ensure that wrong impression do not unnecessarily impede access toloans for women-owned SMEs.

Profitable lending models for women-owned SMEs the loan market for women-owned SMEs in developing countries is mostly untapped representing a substantial opportunity for financial institutions and other providers. It would also encourage other participants for entering in the market.

Global Financing Practices in Women Owned SMEs: Few Examples Ethiopia

Women business-owners of SMEs consider access to finance as one of their biggest challenges. In Sub-Saharan Africa, about 45 percent of women-owned enterprises are denied credit. In September 2008, USAID signed a DCA Agreement with BOA for offering loan financing assistance specifically targeting women entrepreneurs and Diaspora members. The Agreement included a guarantee, which was in addition to agreements signed with three other Ethiopian commercial banks—Awash, Dashen, and Nib International—targeting Diaspora members and SMEs in manufacturing, agriculture, and tourism.

China

The economy of China is driven by SMEs accounting for more than 97% of all companies, contributing to job creation. By innovating R & D, technology up gradation, enhancing product design, and promoting digitalization of enterprises, the ROC's SMEs have developed high-value-added products and services. The government provideshelp and funding support to encourage innovation and R & D andto build international competitiveness. Drawing from lessons on the effect of the global financial crisis on economies, in 2009, various government agencies initiated programs to help SMEs.

MENA Region (Middle East and North Africa)

Firms in MENA region face broad categories of external financing options similar to those found else where in the world. However, with the second least developed capital markets of any regional group, the volumes and penetration of specific mechanisms differ widely as compared to other regions and within the region.

Debt financing

Main form of external financing in the MENA region is debt financing, in particular bank loans. Microfinance has gained ground over the last decade; some believes that it has replaced government programmes as a major tool for starting and consolidating income-generating activities in countries with high micro-finance support like Egypt, Morocco and the Palestinian Authority. Corporate bonds are far less developed.

Banking intermediation

Although MENA banks are the main source of external financing, World Bank reports note that total domestic credit to the private sector is lowest for any emerging region. This assessment is supported by firm-level data showing that MENA firms are less likely to have access to loans or lines of credit from formal financial institutions than those of any region beside Sub-Saharan Africa.

Corporate bond market

The MENA region has largely moved behind the general trend towards disintermediation observed in other regions, where “financial intermediation has been moving away from banks on balance sheet activities to securities markets since the early 1980s” (Thompson, 2001). In 2008, private debt securities represented only 4.0% of GDP, and those with public origins a further 2.9% (IMF, 2010).

INDIA

Government schemes

The government initiated 14-point action plan for public sector banks in order to increase women’s access to bank finance, including MSME finance. It has set a target of 5 percent aggregate public sector bank lending to women and instructed central bank for tracking their performances. Apart from MSME-specific initiatives, India’s 11th five-year plan encourages ownership rights for women by offering options for registration of property. Women homebuyer gets advantage from tax exemptions, lower stamp duties, and easier availability of home loans.

Microfinance

In 2012, the number of microfinance clients in India was approximately 90 million. Of these, nearly 95 percent are women who primarily access loans for income-generating activities. Microfinance loans for seed capital allow women borrowers build credit habits to become more bankable. Thus, microfinance plays a key role in expanding access to finance for low-income women entrepreneur. However, microfinance is effective in catering the needs of small enterprises that do not have much potential for contributing towards GDP and employment generation when compared with micro, small, and medium enterprises.

Table 6: Commercial banks providing tailored financial solutions to women-owned MSMEs Best practices of commercial banks from developed economies

S. No.	Bank	Products	Non Financial Services
	Wells Fargo	**Tailor-made and customized products:** For women entrepreneurs to enable them to access high-quality and affordable finance to women-owned businesses in the United States.	**Recognizing achievements of women entrepreneurs:** For building partnerships with national and regional organizations.
	Westpac Banking Corporation	Westpac has a holistic perspective towards women's banking needs, addressing a complete spectrum of services from personal and private to SME and commercial banking. Women are not treated as a separate operational or strategic segment. Internal training across the bank is aimed at lifting the standards of service to women.	Capacity building through the Davidson Institute. Women Investment Advisory Service Unit specialized in investment planning, education, risk management, and business services.
	American Express	The American Express OPEN	Women can access information, advice,

S. No.	Bank	Products	Non Financial Services
		Program enables women-owned enterprises to access different types of cards especially designed to help them manage their business activities. This includes business chargeand credit cards that deliver purchasing power, flexibility, rewards, and savings on business services. American Express has also been active in promoting women entrepreneurs' access to government contracts, That is basically a male dominated area. The program creates more contracting opportunities for women-owned small businesses.	and guidance from other women entrepreneurs through the OPEN Forum which is an online platform that provides cutting-edge tools and insights to help women-owned enterprises easily monitor everyday operations, from advertising new products to paying vendors. American Express collaborated with Women Impacting Public Policy (WIPP), for creation of "Give Me5 Program" to advocate for more federal contracting opportunities for women-owned small businesses.
	SME Bank (Malaysia)	Financial products adapted for matching needs of women entrepreneurs who, in Malaysia, are heavily Distributed in manufacturing and tourism sector. SME	Incubation system through which the bank provides financing, entrepr-eneurial guidance, and training.

S. No.	Bank	Products	Non Financial Services
		Bank Malaysia has different packages for the women Entrepreneurs, depending on size and development stage.	
	Rawbank (Democratic Republic of Congo)	Rawbank provides lending strategy that eases out collateral requirements for women entrepreneurs	Training and regular SME banking products for women entrepreneurs. RawConseil – a legal advice desk that provides assistance to women entrepreneurs to register their businesses and help them navigate through difficult business environment processes.

Recommendations:

Closing the credit gap in women-led SME sector should boost not only long-term macro economic performance, particularly in low-income countries, but also should bring benefits with higher gender equality and social cohesion. While microfinance institutions have been quite successful at providing unserved and under-served women entrepreneurs by providing them access to short-term loans for meeting their working capital needs, microfinance has been less successful at developing products meeting women's investment capital needs. Following points can be implemented:

More suitable credit terms: Offering loans with terms and conditions that are more aligned with the actual risk that women represent, rather than perceived risk and would make bank credit more attractive to female business owners.

Offering alternative options to fulfil collateral requirements, as well as longer-term loans for investment purposes rather than shorter-term loans to manage working capital, could also prove beneficial.

Improvements to financial infrastructure: Financial infrastructu-reen compassing the institutions, physical structures, technology and networks that allow for an effective exchange and holding of information and capital. It includes things like collateral registries, credit bureaus and payment and settlement systems. Enhancing financial infrastructure in developing countries would make financial services accessible to women.

Analyzing country or market's regulatory environment during project design and its influence on program success:It is important for a country to have a supportive legal and regulatory environment for enabling entrepreneurship programs strengthening women-owned SMEs' to success. Challenges like limited or no access to property rights, limited access to education, and lack of awareness of legal rights influence the degree to which a women-owned SME can grow.

Risk management: Often, banks have limited data on women SMEs, giving a different approach, especially as it relates to risk management strategies. Adapted policies with adjustments in exposure limits and pricing are mandatory to ensure the segment's sustained profitability.

Conclusion

Increasing women-owned SMEs' access to finance is a good and profitable opportunity for financial institutions. For financial institutions, developing targeted business approaches to serve women entrepreneurs can be risky. It can be said that India has very promising financing options for SMEs which are in line with the country's will to embark on a path towards sustainable consumption and production. Serving women entrepreneurs in small and medium-sized enterprises remains in the early stages of evolution. The current reach of services remains grossly inadequate and incommensurate with the market opportunity, and is largely concentrated in emerging economies. Given the major role that SMEs play in the global economy, increasing access to financial services for women entrepreneurs is critical to support economic development. In terms of education and training, governments can provide advice to women entrepreneurs about the types of industries that are more likely to successfully bid for government contracts. While not all women entrepreneurs may be willing to create businesses exclusively on the basis of this information, some may find it helpful if they are at the planning stage of starting their own business. Government should foster public-private dialogue by including business women's organizations in decisions on economic and regulatory policy and funding for economic development. Increase women's ability to own and leverage assets as collateral, addressing issues such as property, housing deeds, bank accounts and inheritance. Ensure relevant laws, policies and government-supported finance opportunities affecting women business owners are transparent and easily accessible to the public.

References & Bibliography

Ayyagari, Meghana, Thorsten Beck, and AslýDemirgüç-Kunt (2007). "Small andMedium Enterprises Across the Globe," *Small Business Economics* 29: 415-434.

Ayyagari M., Demirgüç-Kunt A., Maksimovic V. (2012) 'Financing of Firms in Developing Countries: Lessons from Research', World Bank.

Banerjee,A. Esther D, Rachel G, Cynthia K, (2010). *The miracle of microfinance?Evidence from a randomized evaluation.* Bureau for Research and Economic Analysis of DevelopmentWorking paper.

Bellucci A., Borisov A., Zazzaro A. (2009) 'Does Gender Matter in Bank-Firm Relationships?Evidence from Small Business Lending', Money & Finance Research Group.

Boden, R. J. (1999), "Flexible working hours, family responsibilities, and female self-employment: Gender differencesin self-employment selection." *The American Journal of Economics and Sociology* 58(1): 71-83.

Buvinic, M. and Marguerite B.(1990). "Sex differences in access to a small enterprise development fundin Peru." *World Development* 18(5): 695-705.

Causer P., Park N. (2009) 'Women in Business', Office for National Statistics, Governmentof the United Kingdom

Cole, Shawn (2009) "Fixing Market Failures or Fixing Elections? Elections, Banks and Agricultural Lending inIndia." *American Economic Journal: Applied Economics*. 219–50.

Coleman, S, (2000). "Access to capital and terms of credit: A comparison of men and women-owned businesses."*Journal of Small Business Management* 38: 37-52.

Demirgüç-Kunt A., Klapper L. (2012) 'Measuring Financial Inclusion: The Global FindexDatabase', World Bank (database)

Ernst & Young/IFC. 2012. "SME Gender Baseline Estimation for IFCs Financial Institutions Portfolio", (Internal Guide)

Fairlie, R. and Robb, A. 2008 "Why Do Female-Owned Businesses Have Lower Survival Rates, Profits, Employment and Sales than Male-Owned Businesses?" Working Paper.

Global Partnership for Financial Inclusion and IFC (2011). *Strengthening Access to Finance for Women-Owned SMEs in Developing Countries.* GPFI and IFC.

Hallward-Driemeier, M. et.al.,(2011) "Expanding Opportunities for Women in Sub-Saharan Africa," World Bank.

Hundley, G. 2001. "Why women earn less than men in self-employment." *Journal of Labor Research* 22: 817-829.Sabarwal S., Sinha N., Buvinic M. (2010) 'How Do Women Weather Economic Shocks? AReview of the Evidence', World Bank

OECD (1999), "Financing for Women-owned SMEs: Trends and Issues"*, OECD, Paris*

OECD (2012).Women in Business: Policies to Support Women's Entrepreneurship Development in the MENA Region. *OECD Publishing.*

OECD (2012), "Share, size and industry of women-owned enterprises", in Entrepreneurship at a Glance 2012, OECD Publishing

Khwaja, A. and A. Mian 2005. "Do Lenders Favor Politically Connected Firms? Rent Provision in an EmergingFinancial Market." *Quarterly Journal of Economics*. 120(4), 1371–411.

Lawson S., Gilman, D. (2009) 'The Power of the Purse: Gender Equality and Middle Class.

McKinsey & Company (2007), *Women Matter: Gender Diversity, a Corporate Performance Driver*, McKinsey & Company.

Sabarwal S., Sinha N., Buvinic M. (2010) 'How Do Women Weather Economic Shocks? AReview of the Evidence', World Bank

Schiff H., Fries R., Chambers T. (2013) 'Beyond the Threshold: Investing in Women ledSmall& Growing Businesses', Value for Women.

Shinozaki, S. (2012) 'A New Regime of SME Finance in Emerging Asia: EmpoweringGrowth-Oriented SMEs to Build Resilient National Economies', Asian Development Bank.

Stein, Peer, Tony Goland, and Robert Schiff (2010). *Twotrillion and Counting: Assessing the Credit Gap for Micro,Small, and Medium-size Enterprises in the DevelopingWorld*. IFC and McKinsey & Co., Washington, DC.

World Bank (2012) 'World Development Report 2012: Gender Equality and Development.

Xavier S., Kelley D., Kew J., Herrington M., Vorderwülbecke A. (2012) 'GlobalEntrepreneurship Monitor: 2012 Global Report', Global Entrepreneurship Monitor