german cooperation
DEUTSCHE ZUSAMMENARBEIT

giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH

सिडबी
भारतीय लघु उद्योग विकास बैंक
SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

ATHENA INFONOMICS
Data Science for Development

Strengthening Her Enterprise

A Study on Efficiency of Bank Loans for
Women Entrepreneurs in the MSME Sector in India
2015

Funds for SHE

Study on Efficiency of Bank Loans for Women Entrepreneurs in the MSME Sector in India

2015

Authors

Anupama Ramaswamy
Senior Consultant, Athena Infonomics
anupama.r@athenainfonomics.in

Radhika Asrani
Consultant, Athena Infonomics
radhika.a@athenainfonomics.in

Sanjana Singh
Research Analyst, Athena Infonomics
sanjana.s@athenainfonomics.in

Advisory Support

A. Anil Kumar
Director, Zenomic Management Consultants
anilkumar_a@zenomic.in

Praveen Ravi
Lead Consultant, Athena Infonomics
praveen.r@athenainfonomics.in

Design

Divya Dhayalan
Sr. Design Associate, Athena Infonomics
divya.d@athenainfonomics.in

Raja Goldwin Silva
Design Associate, Athena Infonomics
raja.g@athenainfonomics.in

Disclaimer

Acknowledgment

This report would not have been possible without the cooperation and support of women business owners and financial institutions. Our thanks to all the bankers and women entrepreneurs we interviewed for this research. Their willingness to share their experiences, provide valuable inputs, comments and stories have helped to improve and validate the analysis.

We owe special gratitude to Dr. S. Narayan, President and Mentor, Athena Infonomics; Mr. Anil Kumar, Director, Zenomic Consultants; Ms. Revathy Ashok, CEO and Founder, Iris Consulting; Mr. Ananth Nageswaran; and Mr. P. Shivaraman for their advice and support in making this report possible. We would also like to extend a special thanks to Ms. Anja Shivhare and Ms. Devyani Hari of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) for their support in carrying out this study.

Table of Contents

List of Abbreviations

ANBC
Adjusted Net Bank Credit

AGM
Associate General Manager

BNDES
Banco Nacional de Desenvolvimento Economico e Social

BMB
Bhartiya Mahila Bank

BM
Branch Manager

BRIC
Brazil, Russia, India, China and South Africa

BC
Business Correspondents

CED
Centre for Entrepreneurship Development

CAGR
Compound Annual Growth Rate

CSR
Corporate Social Responsibility

CGTMSE
Credit Guarantee Fund Trust for Micro and Small Enterprises

DGM
Deputy General Manager

GEDI
Global Entrepreneurship Development Institute

GEM
Global Entrepreneurship Monitor

INR
Indian National Rupee

IFC
International Finance Corporation

ITC
International Trade Centre

KYC
Know Your Customer

MOU
Memorandum of Understanding

MSME
Micro Small and Medium Enterprise

N-11
Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Turkey, South Korea and Vietnam)

NPA
Non Performing Assets

PMEGP
Prime Minister's Employment Generation Programme

PSB
Public Sector Banks

RBI
Reserve Bank of India

RBC
Royal Bank of Canada

SHG
Self-Help Group

SME
Small and Medium Enterprise

SIDBI
Small Industries Development Bank of India

SSI
Small Scale Industries

SBI
State Bank of India

SJSRY
Swarna Jayanti Shahari Rozgar Yojana

SGSY
Swarnajayanti Gram Swarojgar Yojana

UN
United Nations

UNIDO
United Nations Industrial Development Organization

WEEI
Women Entrepreneurial Environment Index

WMC
Women's Market Champion

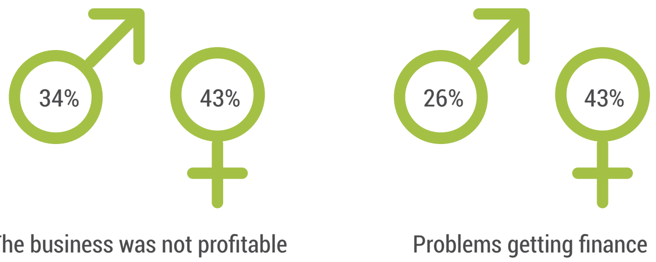
Executive Summary

The micro, small and medium enterprise (MSME) sector in India is credited with generating high rates of employment growth and accounting for a major share of industrial production and exports. Production from the MSME sector accounts for 15% of India's GDP and the sector is estimated to employ around 70 million people.

Women MSMEs in India play a critical role here. They collectively employ over 8 million people, contributing 3.09 % of industrial output. Yet few Indian women seem to take up early-stage entrepreneurship compared to men. Only 33% of early stage entrepreneurs in India are women (GEM, 2014). India also exhibits the third highest gender gap in entrepreneurship globally. This can be attributed to the many barriers that women entrepreneurs face both in starting and scaling up a business - access to education and training, legal and cultural barriers and infrastructure-related challenges, among others. But the biggest disadvantage faced by women-owned MSMEs is their inability to access capital to meet the growth needs of their business. Credit constraints have been cited as a reason for discontinuing their businesses by 43% of women entrepreneurs, as compared to just 26% of the male entrepreneurs (GEM, 2014). Access to financial resources was observed to be the greatest constraining factor in the entrepreneurial ecosystem for women in India by the Gender GEDI Index (2014) and Women Entrepreneurial Environment Index (WEEI).

There are a number of institutional challenges that hinder women's access to finance - lack of collateral, lack of credit history and limited financial literacy. A number of cultural and social biases act against women seeking access to institutional credit too.

Figure 1 : Gender Differences in Reasons for Business Discontinuance (GEM, 2014)



43% of women entrepreneurs cite issues in obtaining finance as a reason for business discontinuance, as compared to 26% male entrepreneurs. (GEM, 2014)

But the good news is that awareness about the high barriers to women owned enterprises and the need to support them have gained traction in recent years, leading to a number of institutional initiatives aimed at delivering credit to women-owned businesses. However, efficacy of such initiatives, the support actually available to women entrepreneurs from lending institutions and their gender-friendliness remains an under-investigated area.

Given this backdrop, the key objectives of this study were to:

- Understand the current credit availability to women owned MSMEs in the country
- Measure the efficacy of financial schemes offered by banks or sponsored by the Government in reaching the intended credit to women
- Obtain the providers' perspective on the efficacy of support schemes and issues in administration of loans to women entrepreneurs
- Understand the issues and challenges women owned MSMEs face in accessing credit

Key Findings

Lending Patterns

The RBI's '14 point Action Plan (2000)' for public sector banks mandates that public sector banks advance 5% of the Adjusted Net Bank Credit (ANBC) to women. The 5% of ANBC to women is applicable across the sectors such as personal loans, with no sub mandate for lending to women entrepreneurs in the MSME sector. Analysis of secondary data shows that most Public Sector Banks meet the 5% lending threshold set by the RBI (on their Adjusted Net Bank Credit) to women, across segments. A few banks made significant progress in lending, seeing not just high Compound Annual Growth Rate (CAGR) in credit to women, but also extending twice the stipulated amounts of loans. However, trends in lending to MSMEs show that women on an average constitute only 6% of total MSME advances. Canara Bank, Vijaya Bank, Indian Bank, Bank of India, Indian Overseas Bank and the State Bank of Travancore have a proportion higher than 10%. The variation in lending to women between banks can to an extent be statistically explained by the presence of special schemes and other initiatives that are run by some banks, which are exclusive to women entrepreneurs. But most banks talked of difficulties in meeting the targets, as identifying genuine women entrepreneurs who operate scalable businesses is a challenge. Other supply side issues discussed below have also led to variations in bank credit to women.

The top financers of women-owned MSMEs have succeeded because of in-house innovations which have facilitated credit to women entrepreneurs such as special loan products and favourable terms of loan. Our research also indicates that banks which have been successful in increasing lending to women owned MSMEs have instituted programmes that helped these borrowers access knowledge, markets, mentorship and networking opportunities helpful in business.

Why are women owned MSMEs financially excluded?

So why do women-owned MSMEs suffer from financial exclusion? This study identifies both demand and supply side reasons for this.

Demand Side Issues:

Data reveals that the lack of access to finance is a severe constraining factor, with only 13% of women entrepreneurs interviewed able to finance their entire business requirements for office space, maintenance, human resource costs etc. The reasons for this are twofold. One, women owned MSMEs seeking finances show reluctance to tap banks and traditional financial institutions for their funding needs. Their main source of finance is personal or family savings, with more established enterprises relying on retained profits for expansion. Two, for those MSMEs which do seek access to external finance, the complexity of the bank lending process is a barrier.

The main findings from the demand side assessment are summarised below. Many of these issues are faced by all MSMEs. However, they are intensified for women due to socially constraining factors that stereotype their role in society.

- Most women owned MSMEs were found to avoid loan applications altogether due to excessive as well as complicated documentation requirements
- Low level of awareness among women about targeted initiatives such as women-staffed branches, concessional interest rates, schemes

- and programmes also served as a barrier. Women also cited lack of communication on loan appraisal and disbursement as a major barrier.
  - Difficulty in meeting the bank's credit application conditions, especially regarding provision of loan guarantees and collateral due to legal and sector specific factors, as well as limited own equity
  - Incomplete business records and lack of independent financial assessments and basic financial statements makes it hard for women to prove credit worthiness
  - The prevalent biases of bank officials against women's entrepreneurial capability further impede access

Supply Side issues:

If women faced problems of access in tapping into institutional credit, why did the financial institutions shy away from extending such credit? They were observed to limit their exposure to women owned MSMEs due to the following constraints:

- High transaction costs of serving women-owned MSMEs, relative to the loan size, due to absence of a formal credit history. This created a need to engage more expensive credibility checks
- Manpower shortages and limited resources for undertaking marketing activities limited the outreach to women entrepreneurs
- The institutions lack gender-inclusive mandates and vision statements, with the result that lending to women was not given due attention
- Government financed programs (credit guarantee programs) for such loans, are insufficient to absorb the risk exposure

Key Recommendations

In light of the above insights on the challenges that women-owned MSMEs face, we arrive at the following key recommendations to achieve a significant increase in the availability of credit to women entrepreneurs:

Government — **Financial Institutions** — **Women Borrowers**

Government:

- Institutional credit often does not reach the intended beneficiares due to the large presence of 'women-owned' enterprises, which are in reality not managed by women. Government could address this problem by offering certifications for genuine women managed businesses.
- Revise Credit Guarantee Fund Scheme guidelines to include trade related activities and inclusive measures for women entrepreneurs
- Streamline delays in settlement periods, to make schemes more bank friendly

Financial Institutions:

- Offer non-financial services such as training and mentoring to women borrowers
- Engage business correspondents and external facilitators to create awareness on loan offerings and schemes for women and help with application processes
- Build partnerships with business associations in providing credit referrals and undertakings, thereby reducing credit risks for lenders
- Use qualitative credit assessment mechanisms as an alternative to traditional appraisal processes in evaluating women-led SMEs
- Locate women-only branches based on geographic concentration of women-led enterprises. Databases can be sourced from Government and Industry Associations
- Use technology based workflow and online credit application for small ticket loans to address manpower constraints
- Conduct gender sensitisation programmes to avoid biases

Women Borrowers:

- Foster non-credit banking relationships with banks
- Foster participation in training workshops and seek mentoring to strengthen financial literacy

01

The Business Case for Women Entrepreneurs

Women entrepreneurs in India collectively employ over 8 million people, contributing 3.09% of industrial output

As they promote innovation and employment, entrepreneurs are seen to play a key role in spearheading the economic development of a nation. In the Indian context, however, the entrepreneurial space reflects a sharp gender disparity. India exhibits the third highest gender gap in entrepreneurship across the world. Its male entrepreneurial activity rates exceed female entrepreneurial rates by 7%, with only Iran at 12% and Libya at 8% (GEM, 2014) faring worse on this count. This gender gap shows that the potential women entrepreneurs hold, as a source of innovation, job creation and economic growth, lies largely untapped.

> *"India's growth rate can make a quantum jump of 4.2 per cent if women in the country get equal opportunity in the core sectors of the economy."*
>
> \- Lakshmi Puri,
> Assistant Secretary - General of UN Women

In addition to their contribution as entrepreneurs, women are often seen to bring an accelerator effect to development. The International Trade Centre (ITC) had noted that women reinvested 90% of their earnings in their families and communities-which means that investing in women is an investment in our collective future. Furthermore, entrepreneurship is not only significant for increasing economic growth but also an important vehicle for the emancipation and empowerment of women.

Women owned MSMEs are heavily undercapitalized with a financing gap of INR 6.37 trillion, indicating that 73% of their finance demands were unmet

Despite the obvious benefits of more women-led enterprises, women-owned MSMEs in India face myriad barriers to entry and business growth. They lack access to education and training, face legal and cultural barriers and encounter infrastructure-related challenges, among others. However, access to financial resources is the biggest constraining factor to the women's entrepreneurial ecosystem in India, the Gender GEDI Index (2014) noted. Cultural and social factors restraining women include women's lack of collateral to borrow, limited access to business networks, markets and education, apart from discriminatory regulations, laws and customs. Women entrepreneurs face a rejection rate of 66% when they approach lending institutions for finance, which was more than twice the rate of 26% observed for men (IFC Enterprise Finance Gap Database, 2011).

Due to the relatively smaller size of women owned enterprises, microfinance institutions are often regarded as the solution to their financial needs. However, this type of financing (usually consumption loans of small ticket size) cannot meet the requirements of women entrepreneurs who lead MSMEs. While there have been efforts to drive finance to such MSMEs though priority sector lending targets and Credit Guarantee Schemes; women entrepreneurs typically get excluded from mainstream financing efforts. They have financial needs greater than a Self Help Group can offer, but are not seen as profitable enough by commercial bankers. The small size and short-term nature of micro-loans do not facilitate long-term investments in their businesses. Thus Women owned MSMEs are often relegated to the 'missing middle'.

A study by UNIDO noted that a country's productivity could increase up to 25%, if discriminatory barriers against women were removed. It shows that closing the large credit gap for women-owned MSMEs across the developing world as a whole, could boost per capita income growth rates by over 110 basis points on average. For women-owned MSMEs in the BRICs and N-11 countries, increased access to finance could enhance per capita income by as much as 12 per cent by 2030, the study noted. These statistics illustrate the tremendous growth impact that the elimination of the credit gap for women-owned MSMEs can deliver.

There have been efforts to improve the financial ecosystem for women entrepreneurs, but these are yet to have the desired impact.

In an attempt to ensure that the women owned MSMEs gain access to finance, the Government of India has initiated a number of measures to extend financial assistance. The most significant of these is the RBI's '14 point Action Plan (2000)' for public sector banks. It aims at gender sensitization of banks through a variety of measures, including publicity campaigns, setting up of women cells, training programmes, specialized branches for women, etc. Further, it has sought accountability through quarterly progress updates, and set targets for increases in the share of net bank credit to women.

The Government has further taken steps through the 11th five-year plan, offering property registration incentives to encourage ownership rights for women. With tax exemptions, lower stamp duties and easier availability of home loans, women entrepreneurs are likely to get greater access to collateral which in turn can help access business finance. This was followed by the launch of 'Bharatiya Mahila Bank' in India in 2013. This is the world's third "women-only" bank intended to provide tailor-made financial services to women.

However, the impact of such initiatives on women entrepreneurs, and the gender friendliness of the institutional credit framework to women remains an under investigated area. Lending to women-owned micro, small, and medium enterprises (MSMEs) as a distinct segment is still unexplored when compared to lending to MSMEs in general, in India. Due to a lack of segmental focus and, perhaps, due to a higher perception of risks, formal financial institutions have made little effort to better understand this segment. There is a lack of awareness among bankers of the potential business opportunity presented by this segment. One reason is the lack of data that would help present a business case to target this emerging sector. In cases such institutions have created targeted credit schemes, the lack of awareness and limited outreach (especially in rural areas) has led to limited impact.

Objective of the study

In order to address the finance gap faced by women entrepreneurs in the MSME sector, it is important to understand factors impeding borrowers and providers. At the providers end, this not only involves an analysis of the loan products/schemes, but also an exploration of non-financial aspects impeding access. Furthermore, to understand the efficacy of the available loan products it is important to analyse the borrower's perceptions of the same. Thus, there is a need to understand the credit requirements of women-owned MSMEs as well as the barriers that affect them in accessing institutional debt. The reasons for under-serving this market segment are not very well researched. While anecdotal evidence suggests a variety of reasons for this under representation, it is critical to establish the limitations and challenges faced by bankers in setting up and scaling up targeted lending programs for women entrepreneurs.

Specifically, the study seeks to achieve the following objectives:

- A systemic understanding of current lending to women owned MS
- Get provider perspectives on the efficacy of support schemes and the issues in administration of loans to women entrepreneurs
- Understand the issues faced by women who own MSMEs, in accessing credit and their awareness of support schemes

Approach and Methodology

This section explains the methodology used to understand:

① Demand side conditions that affect women MSMEs' access to finance

② Supply side constraints from the perspective of lending institutions at the branch and head office level

The study started with a secondary review of literature on the topic. This also included a compilation of a database capturing bank loans and targeted schemes for MSMEs. Secondary data was collected on priority sector lending and lending to women from various financial institutions, including the Reserve Bank of India (RBI) and SIDBI.

Two sets of questionnaires were developed for the assessment of the supply and demand regarding financial products and services for women-owned MSMEs.

Assessment of demand side constraints that affect women entrepreneurs access to finance

This study surveyed 110 women entrepreneurs across six key cities in the country - Delhi, Mumbai, Chennai, Bangalore, Ahmadabad and Hyderabad. Interviews with women entrepreneurs were organised through industry associations and government sources and used non-probability sampling techniques.

The business survey focused on understanding the characteristics, growth potential, financial requirements and sources of finance and supply of credit for women led MSMEs. It also identifies key challenges (financial and non-financial barriers) faced by them in accessing the finance. The survey also sought to establish the borrower's awareness with respect to financial products, loan products and government support programmes. It also collected inputs on the relative importance and perception of existing products on parameters like channel availability and engagement, pricing and tenor, operational turnaround and relationship management by the lender, thereby capturing parameters pertaining to both access to funds and actual availability of funds.

Evaluation of key supply side constraints

To assess the financial ecosystem and understand the scope of financial services provided to women entrepreneurs, interviews were conducted with financial institutions and various stakeholders engaged in MSME finance. The objective of the qualitative in-depth interviews with bankers was to examine the supply of financial and non-financial products and services currently offered to these MSMEs. Inputs were solicited from the bankers on design of products, eligibility criteria, enablers and barriers to loan uptake, process of loan approval and the experience of lenders with this target group, thereby identifying facilitators and challenges across the lifecycle of the loan.

A detailed methodology has been presented in the Appendix.

Outline of the report

The rest of the report is organised into the following sections:

Chapter 2 evaluates the current lending and repayment patterns of women entrepreneurs and the performance of public sector banks in offering such credit

Chapter 3 examines the effectiveness of the institutional response to financing women entrepreneurs, by undertaking a macro assessment of performance of Government instituted schemes

Chapter 4 examines why women entrepreneurs have limited access to finance by examining the demand and supply side constraints. It looks at institutional, personal and social constraints that burden women owned MSMEs. The chapter also examines constraints within financial institutions that limit their outreach to women entrepreneurs.

Chapter 5 uses the evidence generated by the study to draft policy and strategic recommendations to increase credit access for women entrepreneurs

02

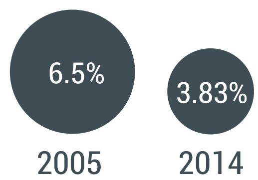
Slice in the Pie-Lending Patterns & Women's Share of Total Credit

In an attempt to achieve greater financial inclusion, the Government of India has initiated a number of measures to provide financial assistance to women and marginalised groups. The most significant of these is the RBI's '14 point Action Plan (2000)' for public sector banks. The Action Plan mandates that public sector banks advance 5% of the Adjusted Net Bank Credit (ANBC) to women. It is important to note that the 5% of ANBC to women is applicable across the sectors such as personal loans, with no sub mandate for lending to women entrepreneurs in the MSME sector. The plan aims at gender sensitization of banks by providing guidelines on a variety of measures, including publicity campaigns, setting up of women cells, training programmes, specialized branches for women, etc. Further, it has sought accountability through quarterly progress updates, and targeted increases in the share of net bank credit to women.

Most banks have met the 5% lending threshold

An analysis of banks' lending patterns highlights that nearly all Public Sector Banks earmark 5% of their Adjusted Net Bank Credit to women, fulfilling the RBI's mandate, however with no significant increases in this number in the last decade. The target was set to be met by 2005 and has seen no revisions since then. Banks indicate difficulties in meeting even the 5% target as they are unable to identify and target genuine scalable women-led enterprises.

An analysis of repayment patterns of women indicates NPAs (Non Performing Assets) on loans to this segment have reduced from 6.5% in 2005 to 3.83% in 2014. This indicates that lending to women has remained low despite their good repayment records which entail lower

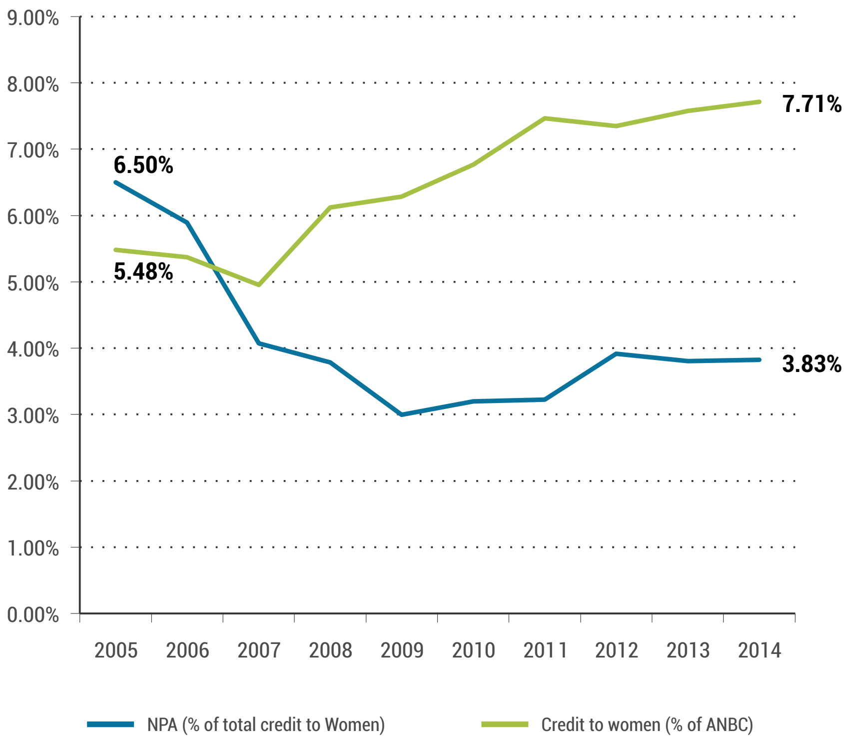


NPAs on loans to women has reduced from 6.5% in 2005 to 3.83% in 2014.

risks for banks. This statistic was validated through qualitative interactions with bankers who highlighted that women are more risk averse in nature and hence have lower default rates on loans.

> *"Women are not risk takers, they are emotionally attached to their businesses and due to this the diversion of funds is low and repayment is higher."*
>
> \- Banker

Figure 2 : Proportion of Credit to Women and NPAs

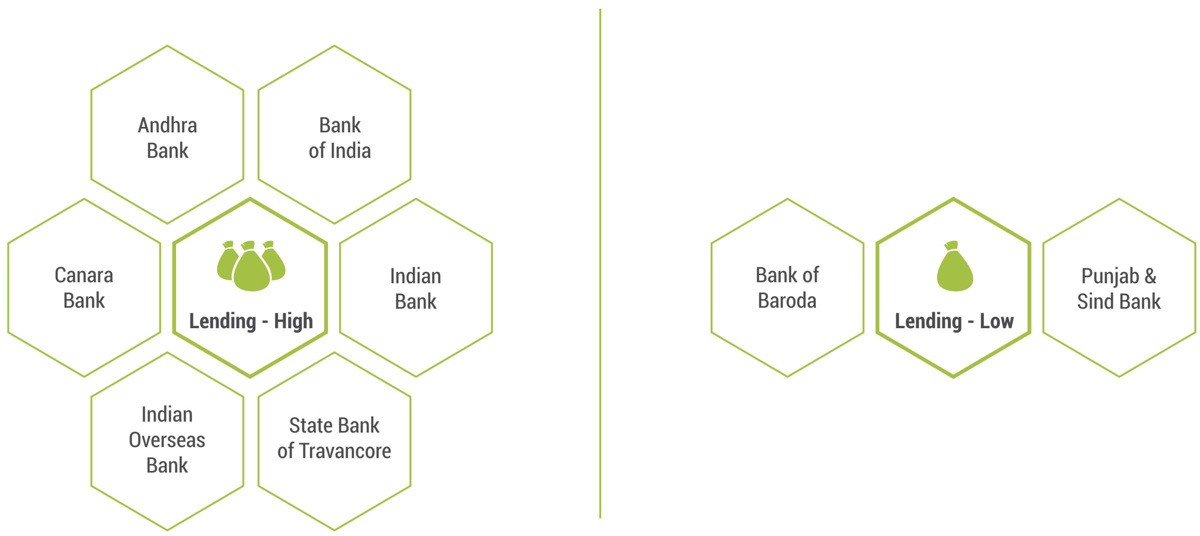


Source: Athena Infonomics Research

Credit to women as a proportion of total ANBC marginally increased from 5.48% to 7.71% over the last decade.

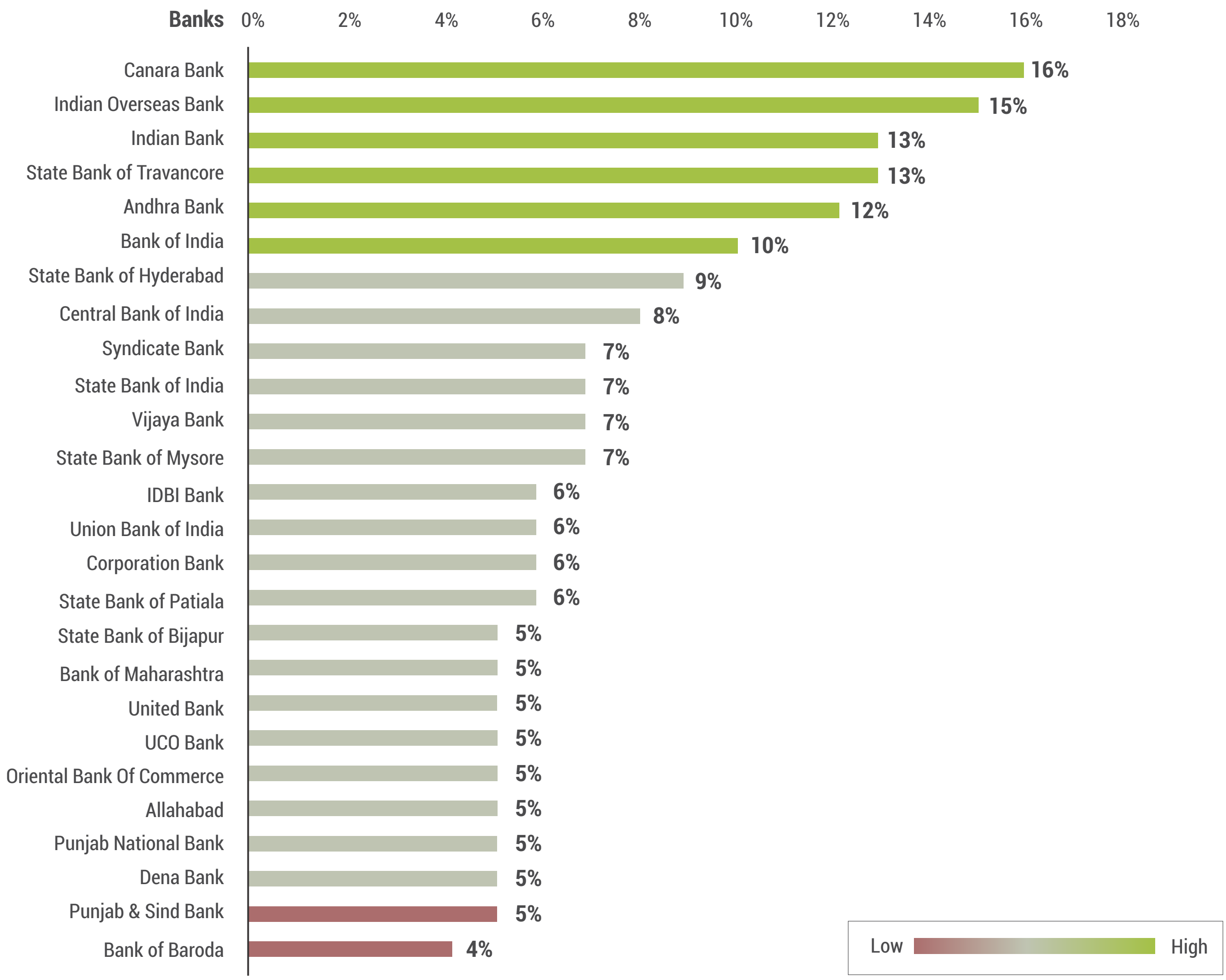
Progress made by select banks such as Canara Bank and Indian Overseas Bank

While overall numbers on net bank credit to women showed stagnation, progress was noted in some banks which not only saw a high Compound Annual Growth Rate (CAGR) in lending to women, but were also able to lend more than double the mandated amount. The top performers in terms of proportion of ANBC to women, as of 2014, were: Andhra Bank, Bank of India, Canara Bank, Indian Bank, Indian Overseas Bank and the State Bank of Travancore. Bank of Baroda and Punjab & Sind Bank exhibited lower lending to women.



The figure below illustrates proportion of lending to women bank-wise in the year 2014.

Figure 3 : Proportion of Lending to Women in 2014 - Bank Wise



Source: RBI

The figure in the next page captures the CAGR in credit extended to women, for the period 2005 to 2014. Indian Overseas Bank and Canara Bank exhibit the highest growth rates in lending to women at 12% and 11.5% per annum respectively. Punjab & Sind Bank and Punjab National Bank amongst others witnessed negative growth rates, showing that their net lending to women declined. The supply side constraints that banks face in lending are discussed in detail in the chapters that follow.

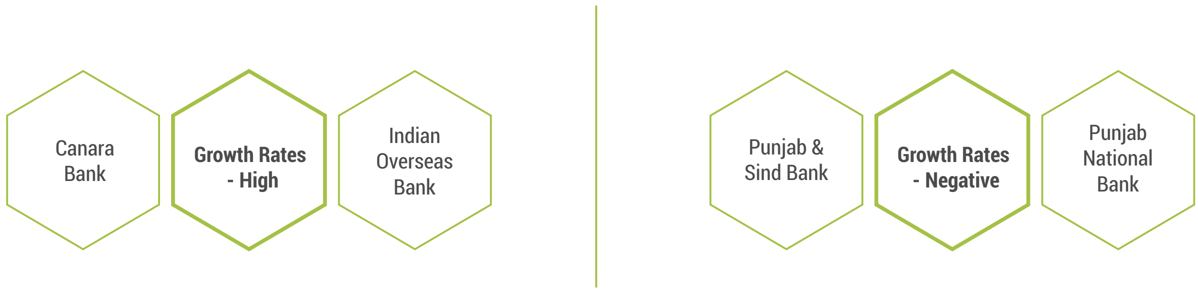
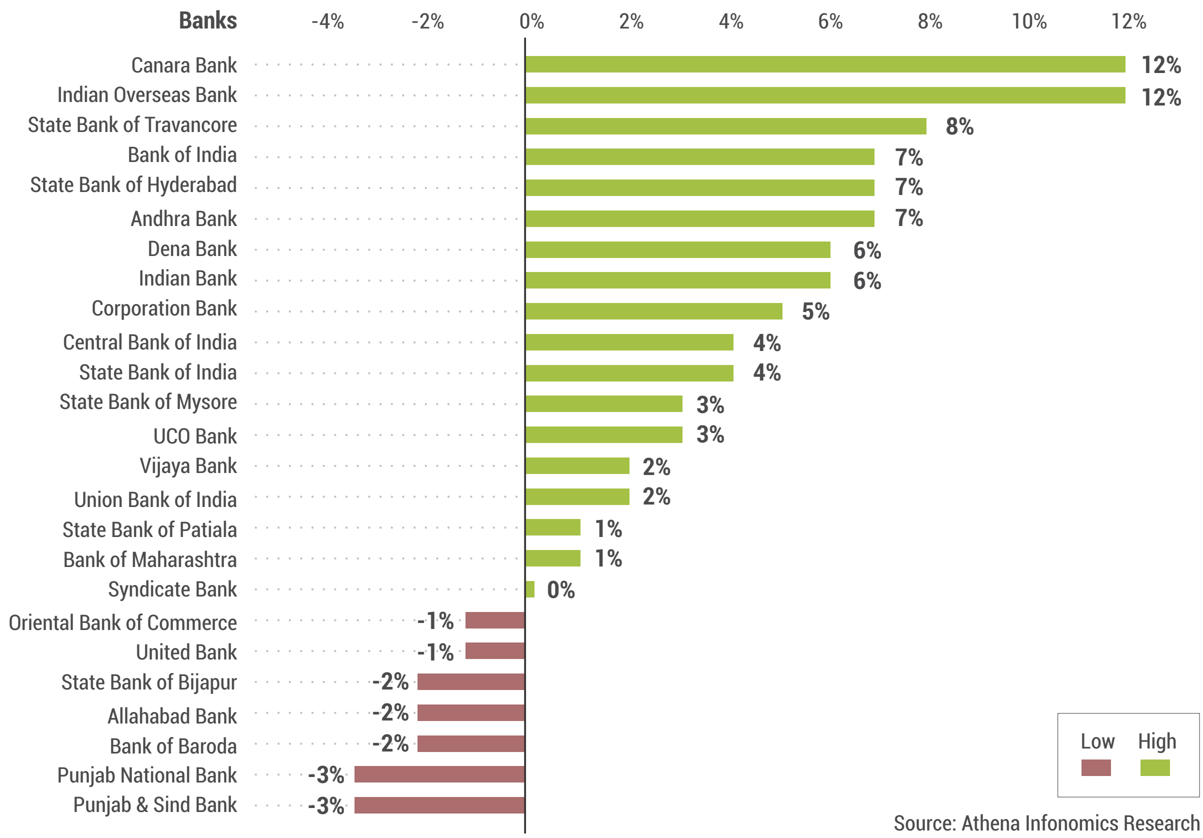


Figure 4 : CAGR of Lending to Women (2005 to 2014)

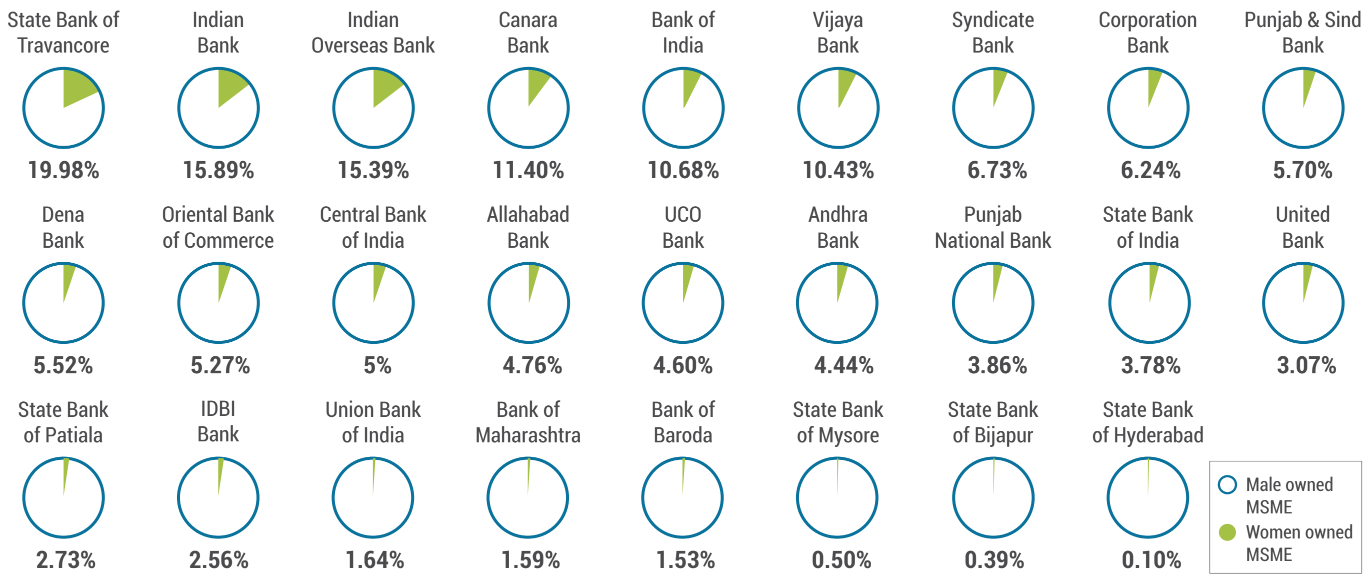


Source: Athena Infonomics Research

The same banks score on Advances made to women owned MSMEs as a proportion of total MSME lending

The data above pertains to all kinds of lending extended to women, including education loans, housing loans and other personal loans and is not limited to MSME loans. On examining trends in overall lending to Micro, Small and Medium Entrepreneurs, women on an average constitute 6% of total MSME advances. A bank-wise evaluation reveals that banks which extended the highest proportion of MSME loans to women were also the top lenders to women across other loan categories.

Figure 5 : Proportion of MSME Advances to Women



Source: Athena Infonomics Research

Are banks willing to lend to women?

Assessment of Lending Patterns

For a more comprehensive analysis of individual bank performance, finance to women owned MSMEs is evaluated through two channels:

① Advances to women entrepreneurs through government schemes and

② Advances independently extended by the bank.

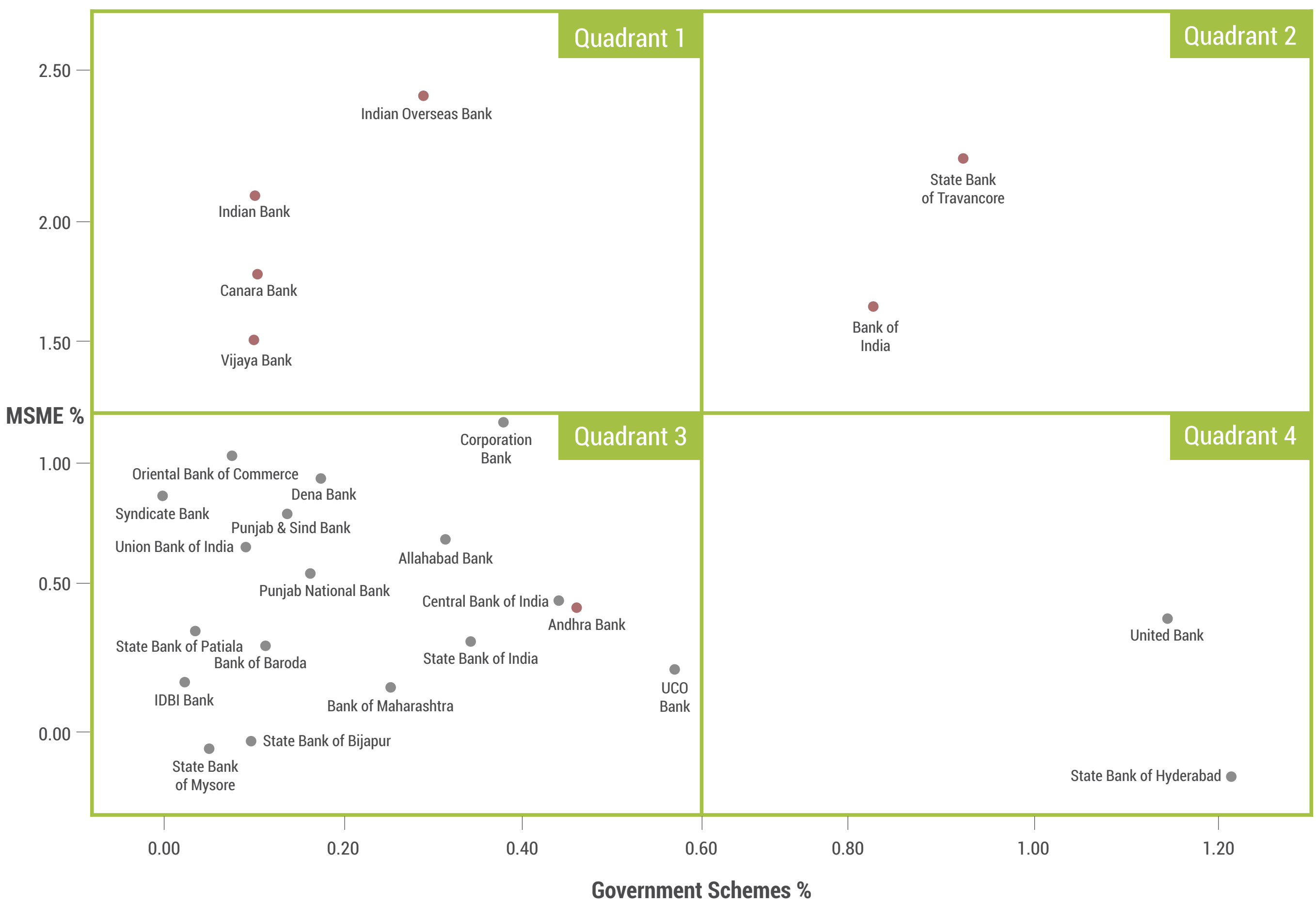
While the first channel is an important indicator of the bank's ability to efficiently deliver government schemes, the second is a reflector of the bank's innovativeness, internal practices and commitment to women entrepreneurs. Both these channels are indispensable to make positive interventions in the current system.

The two-tier analysis is undertaken through a 'Performance Matrix' illustrated below which captures

① Advances to women owned MSMEs as a proportion of the bank's ANBC on the Y Axis and

② Advances to women through government schemes as a proportion of the bank's ANBC on the X axis.

Advances to Women under Government Schemes against MSME lending



High Performing	
1	Innovative, but limited dissemination of Government Schemes
2	Innovative and actively disseminate Government Schemes

Low Performing	
3	Not innovative and limited dissemination of Government Schemes
4	Not innovative, but actively disseminate Government Schemes

Table 1 : Performance Assessment of Banks

	Finding	Inferences
Quadrant 1	Banks in this quadrant have a large proportion of their ANBC issued independently to women owned Small Scale Industries and a relatively smaller proportion of credit issued to them through government schemes. Thus, these banks are more likely to have innovated on in-house practices to facilitate credit to women entrepreneurs.	Indian Overseas Bank, Indian Bank, Canara Bank and Vijaya Bank are the high performing banks, exhibiting greater willingness and innovativeness in lending to women. The banks highlighted in red also display high proportion of lending to women.
Quadrant 2	Banks in this quadrant not only have a large proportion of their ANBC issued independently to women owned Small Scale Industries, but also a large proportion of credit issued to them through government schemes. Thus, these banks are not only likely to have innovated on in-house practices to facilitate credit to women entrepreneurs, but also have efficient channels in place to disseminate funds on government schemes.	Bank of India and State Bank of Travancore not only have in-house practices and initiatives for women but are also efficient in roll out of Government schemes and mandates. Further, they also display high proportion of lending to women as well as total ANBC
Quadrant 3	Banks in this quadrant have relatively lower proportions of their ANBC lent to women owned SSIs', through either of the channels. These banks exhibit a poor mix of advances through either channel.	Most banks fall in this quadrant. These banks exhibit poor channeling of funds from Government schemes and seem to lack initiative in lending to women. Andhra Bank, though exhibiting higher proportions of lending as a fraction of ANBC, falls into this quadrant due to its intensive focus on micro credit where the prominent beneficiaries are Self Help Groups, who fall outside the ambit of MSMEs.
Quadrant 4	Banks in this quadrant have relatively lower proportions of their ANBC independently issued to women owned SSIs, but a larger proportion of credit through government schemes. These may have efficient vehicles for implementing government sponsored programmes, but are unlikely to participate in gender sensitive lending in the absence of such schemes.	United Bank and State Bank of Hyderabad exhibit greater willingness in lending to women through Government linked programmes, however do not exhibit innovative internal practices for advancing credit to women.

The top financers of women owned MSMEs fall in the first two quadrants (1&2), with more inclusive in-house inclusive lending practices. This is reflected in their lending patterns across the sectors which show relatively higher lending to women than their counterparts. Our research also indicates that banks that have been successful in increasing lending to women owned MSMEs have also instituted programmes that have helped them access knowledge, markets, mentorship and networking opportunities to complement lending efforts.

03

How effective is the Institutional Response to Women MSMEs?

Government and financial institutions have instituted 'women specific' and 'women friendly' schemes to meet the need for higher credit to women

Policymakers at all levels of Government play a key role in creating the conditions necessary to accelerate entrepreneurship. At present, women entrepreneurs work under the same macro, regulatory and institutional frameworks as their male counterparts, which may result in women being excluded from mainstream MSME development initiatives. Given that women face challenges that are intensified or distinct from their male counterparts due to their differing roles and responsibilities, certain schemes and programmes of the MSME Ministry accord priority to women and minority groups. Independent of Government-sponsored schemes, banks have initiated programmes that target women borrowers. Accounting for the gender dimension, schemes offered by Government and financial institutions can be classified as follows:

Schemes - Government & Financial Institutions

Women Specific Schemes
Proportion of the institution's MSME schemes exclusively for women entrepreneurs

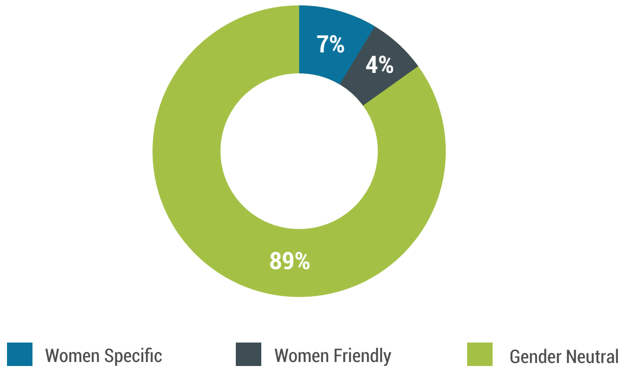
Women Friendly Schemes
Proportion of the institution's MSME schemes which provide special concessions to women entrepreneurs

Government Sponsored schemes
Proportion of the institution's schemes which are sponsored by the government

Bank Initiated Schemes
Proportion of the institution's schemes which were solely initiated by the bank.

On evaluating all schemes offered by Public Sector Banks, 89% of schemes are gender neutral and not sensitive to the needs of women. These schemes had no specific mention of concessions or priority accorded to women entrepreneurs.

Figure 6 : Proportion of Women Specific and Friendly Schemes



Source: Athena Infonomics Research

Women specific schemes are largely independently initiated by the bank, while women friendly schemes are Government sponsored, where the Government accords lending priority to women.

Banks that offer women specific schemes include: Canara Bank, Dena Bank, IOB, BMB, Bank of India, Bank of Baroda, Punjab National Bank, State Bank of Travancore, Andhra Bank, Syndicate Bank, UCO Bank, Oriental Bank of Commerce and Union Bank.

The following sections provide a deeper understanding of the effectiveness of the schemes.

Macro Level Impact of Schemes

The presence of women specific schemes has a positive and significant effect on overall credit access to women entrepreneurs, But there are several inefficiencies in their implementation, lowering the impact of these initiatives

Women specific schemes target women borrowers in sectors such as beauty and wellness, food and beverage that are perceived to have greater representation of women. The features of these schemes include concessional rates of interest, longer repayment terms .Loans are extended for specific business functions such as marketing, trade related activities etc. 7% of all schemes offered by banks are women specific. On statistically testing the relationship between the presence or absence of a women specific scheme and credit to women SSIs on a bank-wise basis, regression analysis reveals a positive (coefficient value: 0.999) and significant relationship (95% confidence interval) between the dependent variable (credit to women SSIs) and independent variable (presence of women schemes) when controlling for factors such as size of the bank and geographical presence. A detailed description of regression results can be found in the Appendix.

Banks are largely unaware of the benefits of women specific schemes and their positive impact on overall credit delivery to women. Findings from the primary interactions indicate that banks' women specific schemes and products are hampered by the following issues:

- Low uptake by women, leading to discontinuance of several schemes
- Lack of initiative by banks in revisiting scheme features and efforts to increase uptake
- Lack of guidance and support in revising schemes
- Ad hoc design of scheme, with no evaluation of the real needs of women entrepreneurs

"In the past we had launched various women specific programmes and offered loans with female specific benefits – but these have seen low uptake and were not that effective"

- Bank representative

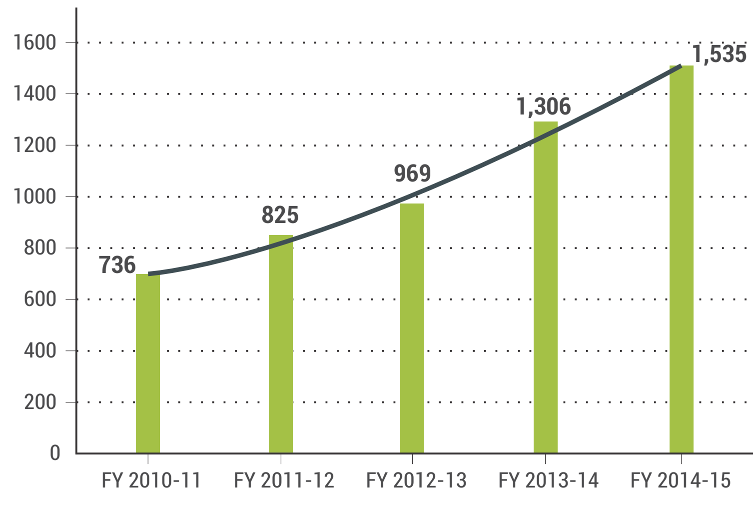
There is a need to restructure schemes based on a comprehensive assessment of the actual requirements of women borrowers. Providing loan products branded as women-specific is not sufficient. It is important to create real value-added products and services, taking into account women's needs and concerns. It is also crucial to generate awareness among bankers on the benefits of women specific credit, advocating greater marketing efforts in this direction.

Of the portfolio of Government schemes, CGTMSE and PMEGP schemes are widely offered by most Public Sector Banks

Credit Guarantee Fund Trust for MSEs (CGTMSE)

According to the World Bank Enterprise Survey, the average value of collateral offered by enterprises in India for receiving a loan is 255% of the requested loan amount. To address this concern, the CGTMSE scheme was instituted in 2000 which aims at providing collateral free credit to MSMEs; with guarantees being provided through the Credit Guarantee Fund Trust for MSEs (CGTMSE). This trust was created in partnership with SIDBI and 133 member lending institutions. While this guarantee covers 75% of the loan in the general category, it extends up to 80% cover for women.

Figure 7 : Lending to Women under CGTMSE



Lending to women as a total proportion of credit offered under the CGTMSE stands at 5.8% (FY2014-15)

Source: Athena Infonomics Research

Credit to women under the CGTMSE has seen a steady increase from INR 736 crores in FY 2010-11 to 1535 crores in FY 2014-15. However, if the increase looks impressive, it needs mention that women constitute only 5.8% of the total portfolio of lending under this scheme. This proportion has averaged 6% between 2011 and 2014, despite the priority accorded to women under the scheme. Access to collateral free loans continues to remain a challenge particularly for women given their lack of independent access to fixed assets.

Prime Minister's Employment Generation Programme (PMEGP)

The government has extended its gender sensitization measures to other schemes and programmes such as the Prime Minister's Employment Generation Programme (PMEGP). The scheme aims to channel credit flow to the micro sector in two ways:

- To generate employment opportunities in rural and urban areas through setting up of new self-employment ventures.

- To provide continuous and sustainable employment to a large segment of traditional and prospective artisans through setting up of micro enterprises.

The current design of the PMEGP has been gender sensitive to the needs of women entrepreneurs by extending assistance in the following manner:

Table 2 : Benefits to Women under PMEGP

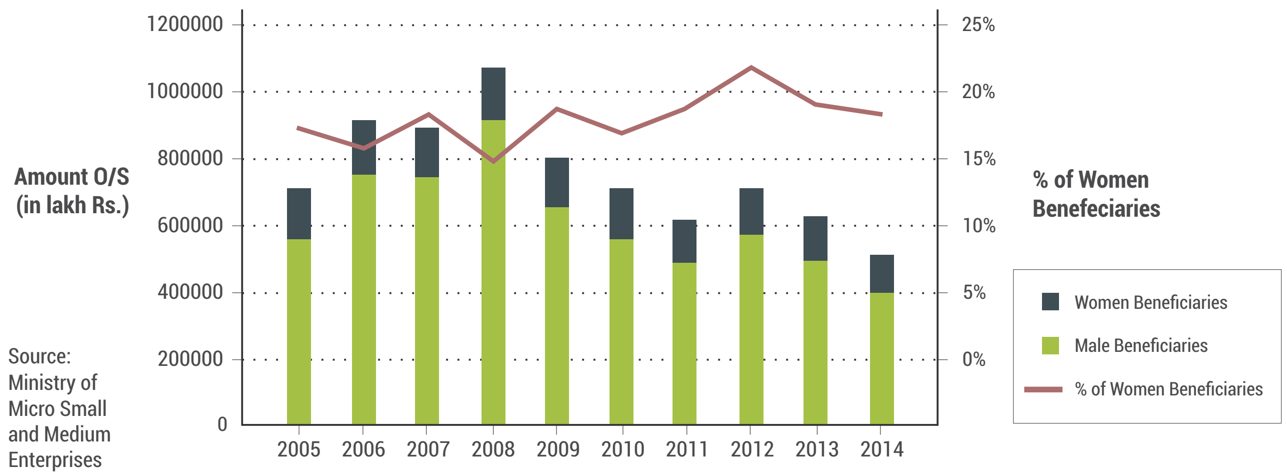
Categories of beneficiaries under PMEGP	Beneficiary contribution (project cost)	Rate of Subsidy (of project cost)	
		Urban	Rural
General Category	10%	15%	25%
Women	5%	25%	35%

Source: Ministry of Micro Small and Medium Enterprises, Government of India

The proportion of women beneficiaries under the PMEGP scheme stands at 18%

The average ticket size of loans availed under the PMEGP scheme see only a marginal variation between men and women (INR 1.01 Lakh for women and INR 1.15 Lakh for men), however, the share of women beneficiaries in the scheme has remained stuck at around 18% over the past decade (Illustrated in figure below).

Figure 8 : Proportion of women – PMEGP



Source: Athena Infonomics Research

Other government schemes propagating entrepreneurship include the Swarna Jayanti Shahari Rozgar Yojana (SJSRY) and the Swarnajayanti Gram Swarojgar Yojana (SGSY), which are limited to the urban and rural poor. Like the PMEGP, these schemes observed similar trends. Despite only marginal differences in the average ticket size (Rs. 400 and Rs. 2000, respectively for SJSRY and SGSY), the proportion of women beneficiaries continued to be low through the decade.

Despite institution of targeted support to promote credit access for women entrepreneurs, the previous sections show that lending to women has seen no significant increase either in the case of Government sponsored programmes or bank initiated schemes. Banks continue to face issues in lending to MSMEs and in particular women MSMEs. The sections to follow examine the demand and supply side barriers to credit access.

A central and recurring issue faced in implementation of schemes is the political pressure from the Government in sanctioning projects / loan applications referred by the local Government authorities.

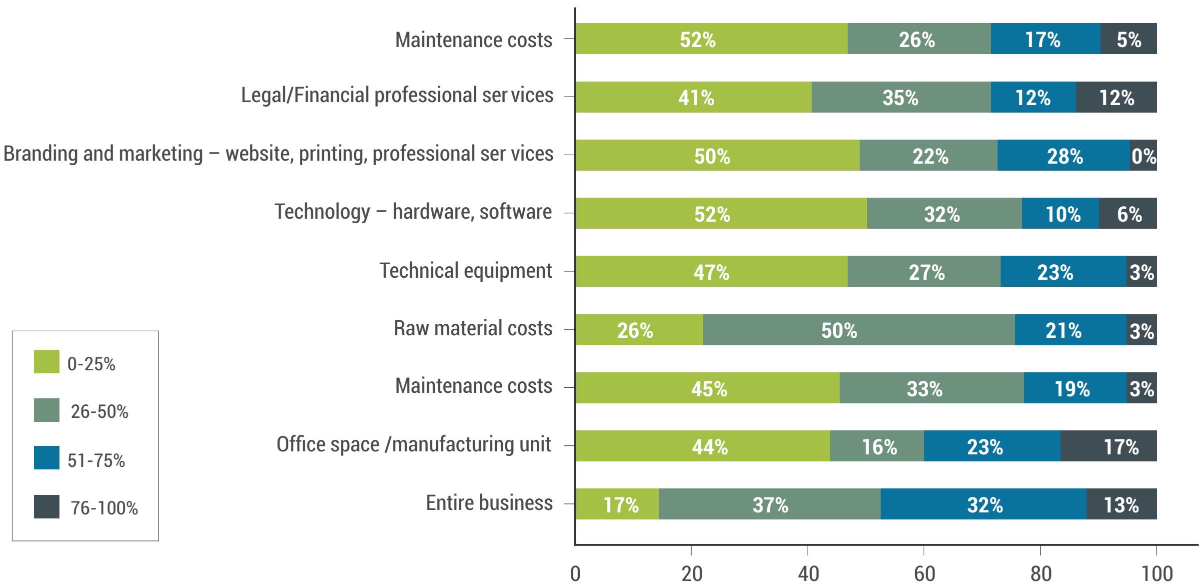
04

Demand and Supply Side Barriers in Credit Access

Our evaluation of the demand and supply barriers in access to credit for women MSMEs is based on primary interactions with 16 public sector banks and 110 women entrepreneurs across cities in India. The sample of banks interviewed captures the overall experience in lending; by interviewing a mix of both low and high performers in such lending.

The study undertook a profiling of women borrowers, by identifying their business characteristics, banking profile, their access to resources, financial management, preferences for finance and their challenges in accessing credit. The survey highlights that only 13% of women entrepreneurs have been able to finance their entire business. Nearly 97% women business enterprises were unable to finance their raw material and human resource costs. Additionally, investments in branding and marketing which have a tremendous impact on the profit that a firm generates, are under-funded.

Figure 9 : Extent women entrepreneurs have been able to finance their business requirements



Source: Athena Infonomics Research

Financial institutions on the other hand, feel they are heavily constrained in bridging the financing gap and extending credit to these MSMEs in the light of asset quality and resource constraints. The table below summarizes the issues in credit access from the demand and supply perspective across four areas namely; awareness, knowledge, risk and process[1].

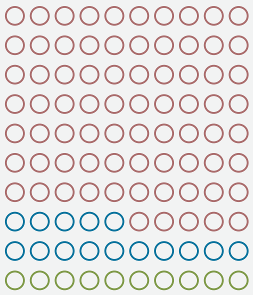
Table 3 : Demand and Supply Side Constraints

Issue	Borrower	Provider
Awareness	Lack of awareness leading to low uptake of targeted initiatives for women.	Manpower shortages restrict business development and marketing efforts. Smaller ticket size loans disincentivize efforts.
Nature of Challenge	Institutional / Systemic	
Risk	Inability to meet credit assessment criteria due to lack of access to collateral, inability to provide credit proofs, negative bias.	Perceived high risks in lending to women MSMEs given their inability to provide collateral, present viable business plans, meet documentation requirements. Further, scheme related inefficiencies such as limited cover and delayed recovery increases risks for banks.
Nature of Challenge	Socio-Cultural	
Knowledge	Low financial literacy and dependence on male members.	High cost of administration due to issues of low financial literacy leading to increased face-time with borrowers.
Nature of Challenge	Personal	
Process	Cumbersome loan application processes and high turnaround times.	Resource and manpower constraints, need for greater back checks given high risk profile of MSME segment.
Nature of Challenge	Institutional / Systemic	

The chapter begins with an analysis of each of the above identified issues, analysing the demand and supply side constraints along with an illustration of how certain banks have addressed these issues.

[1]Classification of issues is based on origination of the problem and impact envisaged by addressing these, it is be noted that some underlying issues cut across the four broad issue areas

Awareness



75% of women entrepreneurs were not aware of any Government or bank instituted schemes offered to MSMEs and women

75% No 10% PMEGP 15% Others (CGTMSE, Independent Bank Schemes, etc.)

1 Borrower Analysis

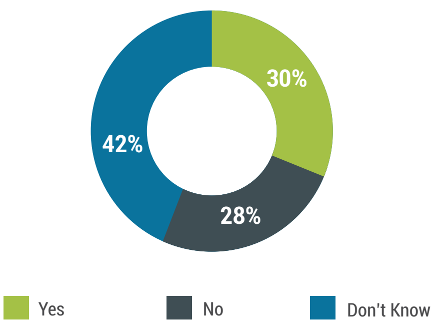
The probability of seeking a loan increases by 30% if a woman entrepreneur is aware of at least one scheme

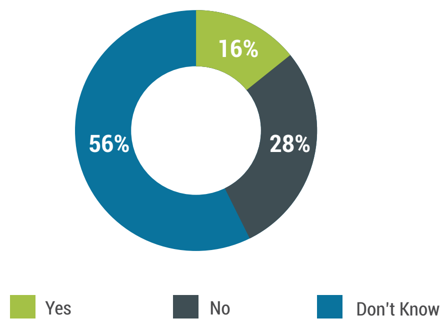
Nearly 90% of women continue to exhibit high dependence on personal savings for financing their business, due to low awareness about loan products and targeted initiatives for women MSMEs. Increased dependence on personal resources for financing reduces scope for expansion and growth; as a result only 13% of women have been able to fully finance their business. On evaluating the reach and uptake of schemes and programmes initiated by Government and banks, 75% of women were unaware of any schemes. Awareness was noted for PMEGP[2] scheme among 10% of respondents and 15% of respondents were aware of CGTMSE[3] and other independent bank schemes.

42% of women were not aware if their banking institution had special lending options for women entrepreneurs

Does your bank provide initiatives for women?

Women were unaware of the presence or absence of targeted initiatives towards women such as women branches, concessional interest rates, schemes and programmes.





Does your bank provide initiatives for MSMEs?

Similarly, 56% of women were unaware if the bank they transacted with had any special incentives for MSMEs.

[2]Prime Ministers Employment Guarantee Scheme is a credit linked subsidy programme for generation of self employment opportunities
[3]The Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) was set to facilitate credit to SSI units, particularly tiny units, for loans up to Rs. 100 lakhs without collateral/third party guarantees.

Only 13% of women entrepreneurs had knowledge of the features and benefits of special schemes

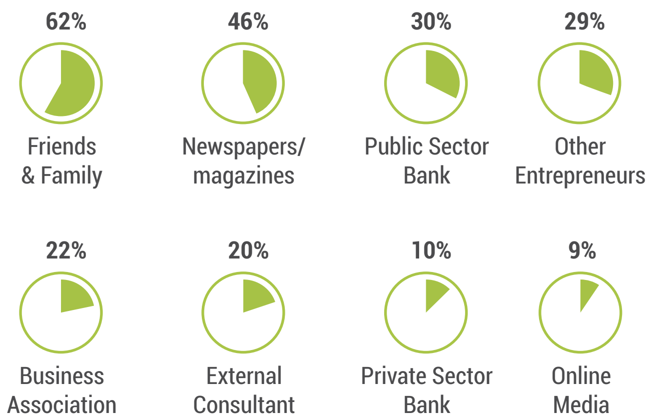
Of the 25% of respondents who were aware of schemes, only 13% of respondents had knowledge of the features of the scheme, eligibility, application process and the benefits that could accrue to them. The remaining respondents had heard of the scheme but the features and benefits were largely unknown.

62% of women cited friends and family as a primary source of information on schemes

Online media sources as indicated in the figure below perform poorly as an information source with only 9% of women having learnt about the scheme from online sources. The difficulty of navigating government websites has been cited as a common challenge among entrepreneurs. Website content is noted to be poorly organized and presented; this restricts quick access to information. Further, much of the information with respect to credit schemes on the websites of financial institutions is outdated.

> *"I had seen an advertisement about the scheme in the newspaper, however when I approached the bank, I was told the scheme was discontinued."*
>
> \- Woman Entrepreneur

Figure 10 : Source of Information



Source: Athena Infonomics Research

Only 7% of women entrepreneurs indicated receiving financial support under a Government sponsored scheme

The results of the primary survey indicate that only 7% of the respondents had actually utilized the support programmes, indicating a very low level of engagement with the institutional support system. This is a dismal figure and raises several questions on accessibility, awareness and applicability of the many programmes. PMEGP and CGTMSE were the most utilized schemes. Further, women entrepreneurs who had availed loans from a bank do not recollect and are not aware of having received a loan under any specialized scheme.

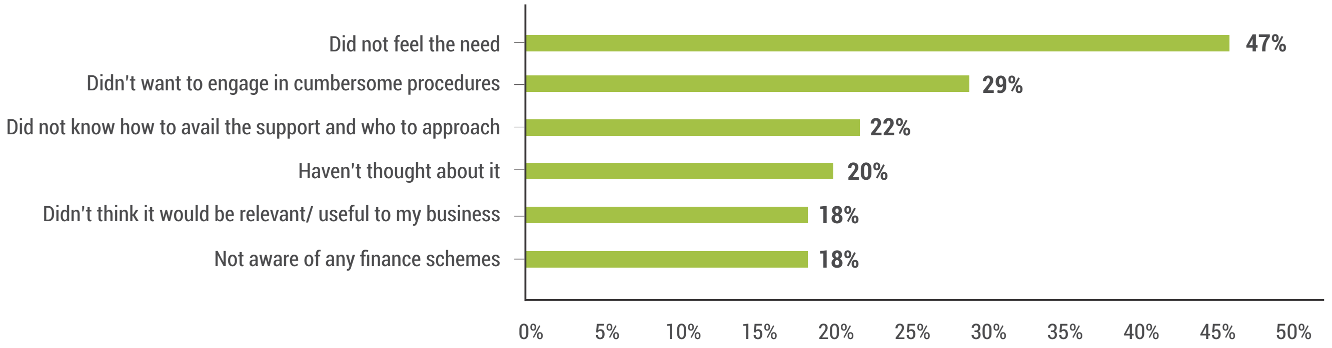
Past research on the effectiveness of public sector initiatives towards MSME development highlights that women do not find the schemes provided by the Ministry of MSME relevant to their business, only 3% of 200 respondents indicated the scheme would be useful in enhancing growth of their business (Athena Research, 2013). Women entrepreneurs indicated that the schemes were largely applicable to the manufacturing sectors with little emphasis on service driven sectors where women predominantly operate.

40% of respondents who did not seek loans, indicated they were not aware of any finance schemes and the processes involved in availing credit

56% of women entrepreneurs interviewed had sought loans, with the remaining 44% not seeking any loans. On evaluating the reasons for not taking up the loans, 47% of the women entrepreneurs stated that they didn't feel the need for loans. This finding is in line with the IFC Enterprise Survey where 54% of women owned MSMEs in India did not perceive the need for credit.

56% of women entrepreneurs had sought loans, with the remaining 44% not seeking any loans.

Figure 11 : Reasons for not seeking a loan



Source: Athena Infonomics Research

Only 13% of women entrepreneurs had sought loans from a women specific branch

Under the RBI 14 point action plan, public sector banks are advised to institute women-only branches. These branches are women run, with majority of employees being women. They focus on women borrowers. Only 13% of respondents bank with a women-only branch, with the remaining 87% banking with regular branches. As such, women-specific initiatives and programmes suffer from low uptake by women due to limited awareness.

2 Provider Analysis

Smaller ticket sizes and high dispersion of loans in the MSME segment lead to manpower shortages

Smaller ticket size loans entail higher dispersion, which increases the strain on resources and costs of administration for banks. The typical loan size for women MSMEs ranges between INR 5 Lakhs and 25 Lakhs, as compared to other MSMEs where ticket-sizes exceed one crore. Loan processing marginally differs for smaller size loans. Irrespective of size, banks need to engage in formal and informal background checks. As a consequence, banks incur high administrative costs relative to the loan size on loans extended to women MSMEs. Given that most MSME credit histories lie within the informal sector and within the MFI domain, banks need to engage in more expensive credibility checks too. Banks are then crippled by manpower shortages with limited resources for undertaking marketing activities. Key banks such as the Bhartiya Mahila Bank indicated manpower shortages as a major barrier in scaling up their business development and marketing efforts.

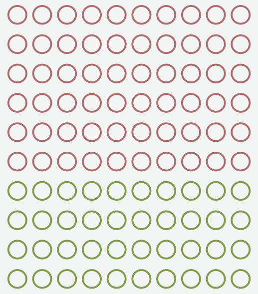
Undertaking marketing and awareness activities is a challenge due to limited control at the branch level

Marketing activities are largely gender-agnostic across banks, with no targeted outreach to women entrepreneurs. Most marketing initiatives are centrally budgeted, with the flow of funds following a scaled top down approach leaving little control at the branch level to undertake awareness generation activities. The onus of marketing and awareness is rarely institutionalized at the branch level, leading to inadequate awareness of programmes. Most banks lacked gender inclusive measures even in their vision statements. Policies aimed at actively seeking out female entrepreneurs are generally lacking in financial institutions with the exception of Canara Bank, Central Bank of India and Bharatiya Mahila Bank which had clear mandates on empowering women. Given the top down nature of these initiatives, the visions and goals of the bank in financial inclusion rarely get transmitted to the branch level, leading to lack of awareness and initiative on part of the local branches.

Best Practice

Canara Bank publishes success stories of women entrepreneurs whom they have supported. They capture the impact of their schemes and programmes on women and their business growth. This is widely disseminated in local print and online media, alongside details of their loan schemes and products. This creates awareness on not only informational aspects of the scheme and application processes, but also the impact of the scheme on women entrepreneurs, thereby encouraging women to apply.

Risk



60% No   40% Yes

60% of women entrepreneurs do not have independent access to collateral or fixed assets

1 Borrower Analysis

Nearly 60% of women entrepreneurs have sought loan financing from institutions. However, only half of them availed a loan. This has been attributed to several factors such as their inability to provide collateral, meet documentation requirements such as provision of utility bills and other credit proofs, as well as prevalent biases among bankers on the capability of women to create viable business models. All of these factors present a risk to financial institutions that limits loan sanctions to women entrepreneurs. These issues are discussed in further detail below.

> An analysis of repayment patterns of women indicates NPAs on loans to this segment have reduced from 6.5% in 2005 to 3.83% in 2014. Despite their good repayment records banks exercise risk aversion when lending to women.

Women's lack of personal asset ownership continues to pose a risk in lending, impeding their credit access despite institution of collateral free loan schemes

The inability of women entrepreneurs to avail loans has been related to their incapability in meeting the bank's credit application conditions, especially regarding the

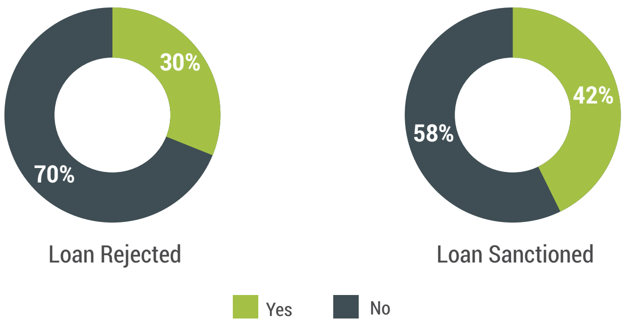
> *"Availing collateral free loans upto even 10 Lakhs has been a challenge. Banks are non-cooperating and take a long time to process loans. We are made to pay multiple visits to banks, often switching between branch and head offices, with no clarity on next steps. At the end of 3 months of constant and tireless efforts I gave up on my loan application for INR 6 Lakhs and made do with funds raised through personal resources."*
>
> \- Woman Entrepreneur

provision of loan guarantees and collateral. "Gender differences in ownership of assets is one of the most influential factors affecting women's ability to access credit and one of the main reasons for rejection of loans" (Powers & Magnoni, 2010). According to the World Bank Enterprise Survey, 84.7% of business loans in India require collateral and Indian MSMEs are required to show collateral whose value is 225% of the loan amount. Socially binding norms causing unequal access to property for women, is a significant gender specific issue facing women MSMEs. Nearly 60% of the women entrepreneurs interviewed did not have independent access to fixed assets and 30% of the unsuccessful loan applicants cited lack of collateral as the reason for rejection. Evidence from secondary literature suggests that women in developing countries frequently lack sufficient collateral owing to following three main factors:

- Legal barriers (weak implementation of succession laws),
- Sector-specific factors (no physical assets in services), and
- Lack of savings (no previous employment history)

In recognition of this challenge there have been efforts to provide gender sensitive collateral free schemes, such as the CGTMSE. Further, the RBI has mandated collateral free loans up to INR 10 Lakhs and upto 1 crore upon the discretion of the bank[4] . As the average loan sought by women entrepreneurs interviewed was around INR 8 Lakhs, they are typically likely to be covered under the mandate. However, women entrepreneurs reported being asked for collateral, even for amounts less than INR 10 Lakhs. 42% of the women entrepreneurs who availed a loan had to provide collateral, particularly women belonging to the Food & Beverage, Health & Wellness and Education industries.

Figure 12 : Provision of Collateral



Source: Athena Infonomics Research

Although collateral is a gender agnostic requirement, it amounts to a gender specific barrier in accessing finance. This is due to women's restricted control over collateral such as land (B. Agarwal, 2002). In India women's access and rights of ownership over family property (both moveable and immoveable), in the absence of a will, is governed by succession laws based on religion. Succession laws in India suffer from weak implementation. For instance a survey of women in two states in India found that only 8% of them currently owned land (UN Women, 2012).

Only 36% of women entrepreneurs have the practice of regularly generating financial statements. Hence lack of documentation has been cited as primary reason for loan rejection

Inability to meet documentation requirements was noted as a reason for loan rejection by 50% of respondents. Women MSMEs lack the practice of undertaking financial assessments and regularly generating basic financial statements. Incomplete business records make it hard for women to display credit worthiness especially under the traditional credit scoring methods. Therefore women fall behind on essential credit assessment criteria and banks refrain from engaging

[4]RPCD.SME & NFS.BC.No.16/06.02.31 (P)/2009-10 dated August 24, 2009

with them. Women entrepreneurs were also unaware of the need for a strong business plan, showing clear growth projections and purpose for loans.

Further, credit and identity proofs that are required for loan application in form of utility bills such as water, landline, electricity bills often exclude women from accessing finance. Additionally, the 'Know Your Customer' (KYC) norms are imposing high administrative costs on banks as well as for the borrowers.

Non credit factors such as banking history and age of enterprise are other factors that influence the probability of availing a loan

Among other factors, banking history and the age of the enterprise are useful in enhancing credit access. Statistical analysis indicates that with a one unit increase in banking history, the odds (the ratio of the probability of success and the probability of failure) of availing a loan (versus not availing a loan) is increased by a factor of 1.62 (Athena Research). Therefore having a previous non-credit relationship with the bank increases probability of availing a loan, as past interface with the borrower increases the banks' comfort factor and lowers perceived risks. Women are unaware of the importance of these factors and their influence on credit access.

Further, with a significant increase in the enterprise's age, the odds of availing a loan are increased by a factor of 1.32 (Athena Research). Most women entrepreneurs are first-generation entrepreneurs, unlike male entrepreneurs who lead continuing family run businesses. Banks show a higher preference for lending to existing enterprises for purposes of growth financing; this is a disadvantage to women who are primarily engaged in startups.

31% of women entrepreneurs perceive bank officials to be biased against women,. But the involvement of a woman loan officer in decision making was observed to have a positive effect

Gender bias has been identified as a major constraint to financial access in several developing countries. Women are perceived as 'high risk' given their inability to meet credit assessment criteria, that stems from pre existing gendered division of assets and the perceived role of women in society. Women are not recognized as economic agents. Entrepreneurship is perceived to be a 'secondary' activity for women by financial institutions.

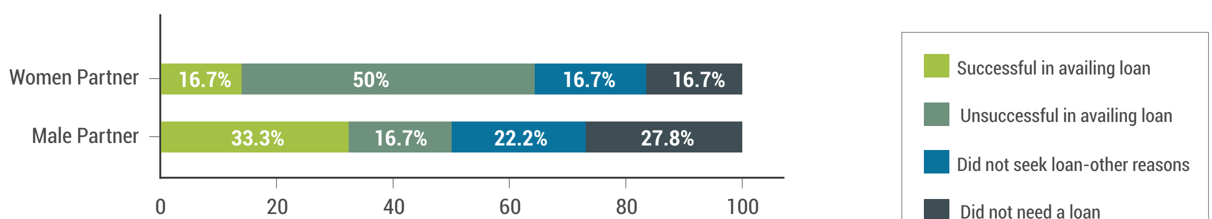
"Bankers usually treat us as second class citizens. They look down upon us as if we don't even speak English. "

- Woman entrepreneur

Women have indicated instances of unequal treatment and "not being taken seriously" by banks. This is further accentuated for women who come from poorer backgrounds Hence women's access to finance is impacted by prevalent biases of bank officials against women's character and capability.

To mitigate for the same, nearly 50% of women interviewed were required to provide male signatories as part of the application, further increasing their dependence on male counterparts. Findings indicate that women with male partners in business were more successful in availing a loan than completely women managed firms, by 16% (Athena Research).

Figure 13 : Loan success with presence of male / female business partners



Source: Athena Infonomics Research

An analysis of the impact of women loan officers and managers indicates that, if a female bank official was involved in the decision making process, the probability of loans getting approved was nearly 67% (Athena Research).

If a female bank official was involved in the decision making process, the probability of loans getting approved was nearly 67%

Sectoral biases further impede access for women entrepreneurs who primarily operate in service driven sectors

Negative bias against women entrepreneurs is also linked to their sector of operation. There is a greater concentration of women entrepreneurs in service and retail sector. Any lending bias against these sectors disproportionately impacts them. Banks usually determine their sectoral focus based on an analysis of the industries' growth potential. Sectors out of this ambit are viewed as non viable or high risk.

In addition to the bias perceived by bankers, at an institutional level there have been concerns on a change in lending priority towards micro credit through Self Help Groups (SHGs). In the absence of credit histories, mutual guarantee amongst group members was seen as an effective way of establishing credibility and protecting banks against the risk of default. Given that women owned MSMEs required a greater quantum of loan finance, their needs are unlikely to be me through micro credit under the SHG model. Most women were of the opinion that this shift in lending priorities had already taken place, and there was an increasing need to focus on small quantum loans to MSMEs.

All of the above factors that are driven primarily by socio-cultural dynamics impede women's access to credit, increasing the financing gap. Analysis indicates even amongst women who successfully availed credit, there existed a 'finance gap' averaging to INR 2.8 Lakh per entrepreneur. This further increases women's dependence on informal sources of finance.

INR 2.8 Lakh

Amongst women who successfully availed credit, there existed a 'finance gap' averaging to INR 2.8 Lakh per entrepreneur.

2 Provider Analysis

Banks attempt to mitigate risk by enforcing gender-specific selection criteria, such as marital status of women

In a traditionally patriarchal society women are often faced with discrimination in all spheres of life. They are inevitably stereotyped as primary care-givers to children and assumed to be secondary earners. Thus bankers tend to undervalue them, effectively forcing women back into the home and hearth (Hertz, 2011). In India, banks perceive greater risks in lending to unmarried women entrepreneurs, as they are perceived to have little or no control over their enterprise's future. The continuance of the business is perceived to be in doubt. Banks perceive married women to be more credit worthy, as they could also rely on their husbands for loan repayment support. This is reflected in the fact that only 10% of the women entrepreneurs surveyed were unmarried.

"In case the woman is not married there is no assurance for the continuation of business post marriage. She could either move to another place or her husband may support her to continue-it's a matter of risk."

- Banker

Banks actively seek collateral for amounts exceeding INR 10 Lakhs to mitigate risks and to deal with scheme related inefficiencies

Maintaining asset quality is a significant challenge for bankers. When a loan applicant defaults, bankers are held highly accountable for it. Banks look at women in particular as higher risk borrowers given their inability to meet documentation requirements, provide collateral and present business plans. Banks transfer their risks by offering loans under the CGTMSE scheme. However, most banks have experienced delays in receiving the full guaranteed amount from the Government. Furthermore, the extent of the cover is reduced for amounts exceeding INR 50 Lakhs. This deters bankers from offering large ticket size loans under the scheme. Bankers also observed considerable delays in the scheme settlement periods. As a result bankers often tend to exercise risk aversion by actively seeking collateral from women entrepreneurs for amounts exceeding INR 10 Lakhs.

The following issues and concerns were noted in implementation of the CGTMSE scheme.

Moral Hazzard	Moral hazard occurs when one person takes more risks because someone else bears the burden of those risks. Bankers tend to approve low quality, high risk projects to meet RBI's priority lending requirement. However, a proportion of this risk is mitigated by extending the loan under CGTMSE cover.
Risk Aversion	Given high accountability for Non-Profit Assets (NPA), bankers exercise risk aversion by actively seeking collateral even under the CGTMSE cover.
Delayed Recovery	In cases of defaults, bankers observed frequent delays in the scheme's 30 day claim settlement guideline. This further discouraged lending under the scheme.
Limited Cover	The extent of the cover is reduced for loans exceeding INR 50 Lakhs, extending to a maximum of 65% for a woman owned enterprise.
Exclusion of Trade	Trade and retail sectors see a high participation of women entrepreneurs. An exclusion of trade from the scheme coverage not only limits the scheme's scope, but also fosters bias, stemming from the pre-existing labor market segregation. Interactions with SIDBI further attribute this exclusion to initial design of the scheme. At the time of its launch, trade was not part of the then Ministry of Small Scale Industries. Thus, post its inclusion in 2009, the CGTMSE was found incapable of extending guarantee to it, unless restructured.

Political and social pressures impede transparent sanction of loans

Bankers also face undue political and social pressures in the sanction of loans. Social pressures particularly come into play while lending to women entrepreneurs in rural areas, where operations can be influenced by the often biased village dynamics. Political pressures usually come into play during the execution of government schemes, where projects approvals were often politically influenced.

Proposals received through Government referrals are of inferior quality, increasing the risks for bankers

With regards to government schemes, most bankers were of the opinion that they were well structured. However, the proposals coming through these schemes were often seen to be of an inferior quality, entailing greater default rates. Alongside political pressures in processing these schemes, bankers often found borrowers coming forward only to benefit from the subsidy.

Best Practice

- Bharatiya Mahila Bank's tie up with Naturals & Cavin Kare, eases credit appraisal requirements for their proposed franchisees.
- Central Bank of India's collateral free scheme for women engaged in retail trade of fish, 'Matsakanya scheme' simplifies the credit appraisal requirement through a letter of undertaking by an association

Case Study

Bhartiya Mahila Bank (BMB)

What is Different about BMB?

Bhartiya Mahila Bank is the first all women's bank in India with a vision for economically empowering women. BMB is one of the few banks with a dedicated mission to promote women entrepreneurship and eliminate lending bias against women. The bank has designed women centric products keeping in mind the core strengths of women. Some of these products include loans for day care centres, beauty salons and food catering. Specific SME and Micro lending products include SME Easy that offers a combination of working capital and term loans with interest rate concessions. BMB is specially designed to increase the comfort factor among women when approaching banks and reduce bias in lending by having greater proportions of female loan officers and employees. The bank recognises the financial literacy needs of women and has instituted financial literacy activities through branches on a weekly basis, they have also entered into MOUs with training institutes to offer training to women on financial aspects. Further, bank officials offer special hand holding support to women providing them advice on their business strategy.

How are they Impacting Women Entrepreneurs?

Women operating in sectors such as retail, food and beverage are often turned down by traditional public sector banks as they are not viewed as viable sectors for lending, in the backdrop of maintaining asset quality. With the incorporation of the Mahila Bank, women now have a targeted alternate source for financing that offers products, catering to the larger subset of women entrepreneurs operating in retail and trade. Women receive benefits in terms of concessional interest rates, longer repayment cycles, collateral free loans upto INR 20 Lakhs (10 Lakhs in other PSBs) and non financial services such as training and business guidance. The bank has till date conducted financial literacy programmes through network of 34 branches, with more than 25000 beneficiaries and have entered into MOUs with several NGOs to facilitate lending to women.

Way Forward

BMB is in its early years of operation. The bank so far has been highly crunched for manpower and resources, which constrains the breadth and depth of their initiatives. Bank employees note that the geographical locations for branches need to be strategized around greater concentrations of women entrepreneurs, to increase demand and awareness of their services. At present, the bank sees very low uptake of their products. Further, the bank noted issues around identification of genuine women entrepreneurs, to address this issue, it is recommended to develop stringent selection criteria that account for women's involvement in the business or establish tie ups with organisations such as WEConnect International that certify women owned and managed businesses in India.

The bank holds tremendous potential in catering to the underserviced and underfinanced 'missing middle' class of women entrepreneurs.

Knowledge

92% No 8% Yes

92% of women entrepreneurs did not undertake any training to manage financial aspects of the business

1 Borrower Analysis

Increased financial literacy is an important factor to increase women's access to finance

Low levels of financial literacy prevent women owned MSMEs from adequately assessing and understanding different financing options, and from navigating complex loan application procedures. Research in the developing country context shows that financial literacy training increases the demand for banking services (Klapper and Zia, 2009). However, behavioural studies, such as that by Goldsmith and Goldsmith (2006), have shown that men are perceived to have and had greater knowledge about finances than women.

"There are no supply side constraints for women entrepreneurs; only demand side. Banks are willing to lend money to viable projects irrespective of the gender of the business owners. However women entrepreneurs don't understand finance or financial management. This is a major gap area"

-Bank Representative

"My husband manages the finances. Women lack the freedom to take financial decisions of a firm…I have not participated in training programmes on accounting and finance. Training on basic finance would be useful."

- Woman entrepreneur

Primarily, this can be attributed to two causes. Firstly, the traditionally lower access to education has disproportionately impacted women. The second cause relates to the effect of socioeconomic norms, which may restrict a woman's educational choices. 92% of the women entrepreneurs interviewed had not undergone any training in finance and were dependent on male members for support.

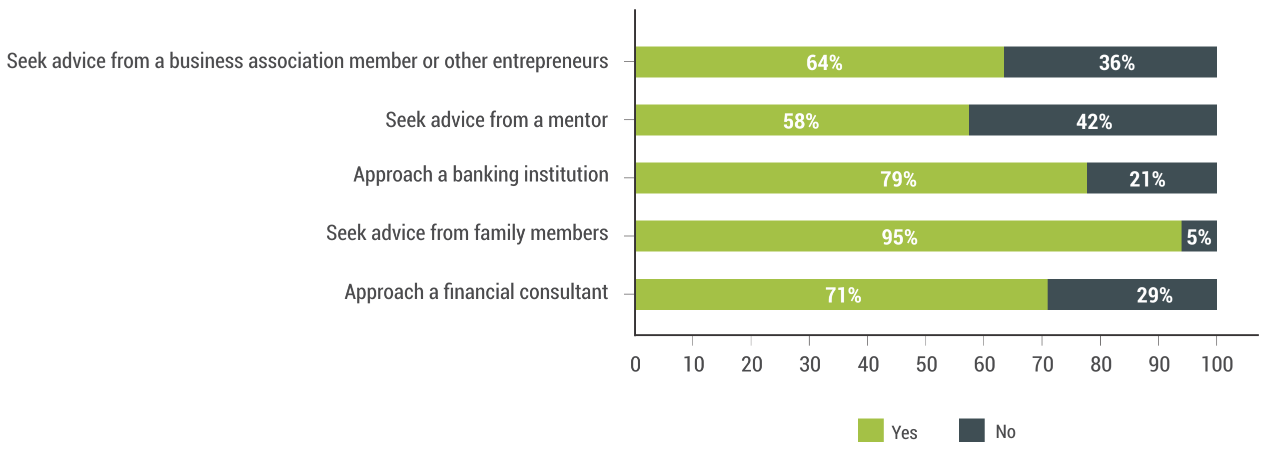
Further, many women entrepreneurs are unaware of and do not fully understand banks' loan application processes. Respondents of the survey stated that few banks provide a checklist of the information required for a loan application but often failed to provide detailed information. Additionally, for women MSMEs, bank's lending decision criteria is a black box.

To evaluate the various options to finance their enterprise, 95% of the women entrepreneurs were dependent on the advice from family members

Women entrepreneurs were found to rely substantially on advice from family members, especially male family members while evaluating finance options for starting and growing a business. Often women surrendered the business financial management decisions to their spouses or male members as they lacked confidence in managing finance or perceived finance to be a complex area. The second point of contact for women to understand financing avenues is banking institutions. Other popular evaluation mechanisms included approaching a financial consultant who offers financial counseling, marketing advice and management guidance which are associated with heavy fees. Mentors and business associations are other avenues for women entrepreneurs to gain information on financial planning and get their business plans evaluated. However the current penetration of business associations and mentoring opportunities for women business enterprises are low.

> *"I own and manage the business. However I leave my financial management decision to my advisor (financial consultants). I find it very difficult to comprehend these things."*
>
> \- Woman entrepreneur

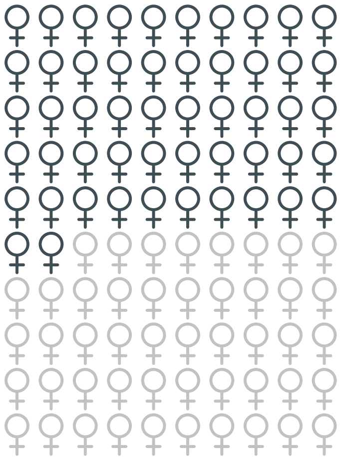
Figure 14: Support Mechanisms to Evaluate Avenues for Financing



Source: Athena Infonomics Research

52% of women entrepreneurs sought assistance from male partners in loan application process

On an average, only around 30% of women entrepreneurs engage in practices such as regular generation of financial statements, computation of financial ratios, independent credit assessments etc. Nearly 46% of women did not use Tally or other accounting software in generation of their financial statements. This has been attributed to the predominant lack of financial literacy and the domination of unorganised sector among women enterprises. This lack of financial literacy in operation also acted as a barrier when accessing loan finance. 52% of the women entrepreneurs required additional assistance during the application process from male partners.



52% of the women entrepreneurs required additional assistance during the application process from male partners.

> *"They may be technically literate, having complete operational knowledge, but they wouldn't know how to formulate their accounts to attract investments from financial institutions."*
>
> - Banker

2 Provider Analysis

Most bankers perceived women to have very poor financial literacy, this increases their costs of administration and reduces their incentive to lend

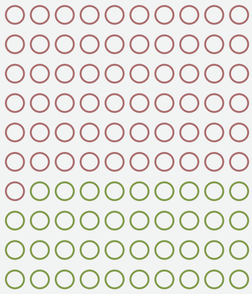
It has been observed that women entrepreneurs display lower financial literacy than men and are also less confident in their financial knowledge and skills. These gender differences in financial literacy are correlated to higher loan processing costs for banks as they need to extend additional assistance to women in identifying the financial products, developing the business plan and completing the documentation requirements The viability and feasibility of extending such support is questioned due to limited bandwidth of banks. High manpower challenges have restricted banks ability to extend non financial services to women entrepreneurs. In recognition of this there have been efforts, both centrally and by individual banks. For instance RBI has directed lead banks to set up 'Financial Literacy and Credit Counselling Centres' in their jurisdictions[5]. Bhartiya Mahila Bank has taken a gender-specific approach to enhance financial literacy. It has entered a MOU with a skilling institute to provide training to women on finance and marketing.

> *"Women usually do not manage technical functions such as finance. They are accompanied by their husbands and most times the business is managed by the husband. Women are not even aware that a loan has been taken."*
>
> - Banker

Bhartiya Mahila Bank has taken a gender-specific approach to enhance financial literacy. It has entered a MOU with a skilling institute to provide training to women on finance and marketing.

[5] circular RPCD.CO.MFFI.BC.No.86/12.01.18/2008-09 dated February 4, 2009

Process



61% No 39% Yes

61% of women entrepreneurs were dissatisfied with the loan application processes and turnaround time

9 Visits for loan application
33 Days to complete application process
57 Days average turnaround time

1 Borrower Analysis

Loan application process is a challenge for all MSMEs, however financial illiteracy and negative bias intensifies these issues

Women entrepreneurs on an average made nearly 9 visits to the bank, to get their loan approved which delayed the entire application process. Drawn out application process took almost 33 days to complete.

Women entrepreneurs on an average made nearly 9 visits to the bank, to get their loan approved which delayed the entire application process.

Some of the reasons identified for delays and cumbersome processes are as follows:

- Respondents of the survey stated that few banks provide a checklist of the information required for a loan application at the outset. This makes for multiple visits to banks.
- Requirement of male signatories. Nearly 50% of the women entrepreneurs seeking loan were asked to provide male signatories.
- Women complain of bias and indifference by bankers wherein they are "not taken seriously", impeding the loan processes.

"Banks do not clearly communicate on documentation requirements. When we submit the application, they inform us one document is missing which was not communicated earlier. This happens multiple times and requires us to make multiple visits."

- Woman entrepreneur

High turnaround time was noted as the second greatest challenge in accessing a loan, with nearly half the respondents expressing dissatisfaction over it.

As most entrepreneurs sought growth financing, high turnaround times for loan sanction proved to be a costly challenge. The delay directly affected their production cycles, impairing their growth potential. Thus

Loan sanctions took an average turnaround time of 57 days. This was almost double the time taken for rejecting a loan.

entrepreneurs either miss the growth opportunity, or turn to informal sources of finance. Loan sanctions took an average turnaround time of 57 days. This was almost double the time taken for rejecting a loan. In addition to the high turnaround, the borrowers also experienced instances of no response from the banks. This was either with respect to the status of an application, or cause for rejection.

> *"I did not receive the required quantum of loan, despite providing collateral for thrice the value. Moreover, the banker never explained why I was not provided the entire sum"*
>
> - Woman entrepreneur

2 Provider Analysis

Bankers cited lack of man power as a cause for delays in turnaround times

Most banks indicated a turnaround time of 2 weeks for processing small loans, which is the case for most women entrepreneurs. Any delay in this process was attributed either to the loan approval mechanism or lack of manpower. Many bankers felt that a shift in loan processing procedure to centralised processing cells led to delays in sanction, particularly for small loan amounts. Earlier these sanctions would have taken place at the branch level itself. Bankers have observed this change to have led to the migration of customers to financial institutions offering over-the-counter loans.

Any delay in this process was attributed either to the loan approval mechanism or lack of manpower. Many bankers felt that a shift in loan processing procedure to centralised processing cells led to delays in sanction, particularly for small loan amounts.

Best Practice

- To address issues in loan application Canara bank has created a 'Department of Women Empowerment' as part of its CSR division. As part of its varied activities this department independently assists prospective women entrepreneurs through the loan application process.
- IDBI provides technology based workflows that helps reduce approval time between officials, an initiative towards reduction of overall turnaround time

Case Study

Canara Bank

What is Different about Canara Bank?

With 16% adjusted net bank credit, to women, Canara Bank has been identified to significantly have the most gender inclusive lending pattern. This was attributed to the emphasis on financial inclusion rooted in the founding principles of the bank. Gender sensitization has not only fed into its financial products but also into the overall functioning of the bank. In the context of women entrepreneurs, the bank extends finance under subsidised women specific and women friendly loan products. These products are further complemented through its CSR activities. This was primarily through setting up of Centre for Entrepreneurship Development (CED) for Women, in 1988, to channel their efforts. Their activities are aimed at providing all around support to women entrepreneurs. This includes counselling, training and workshops on technical, financial, managerial and marketing requirements of an enterprise. They also independently extend support to strengthen an enterprise's forward-backward linkages. This is primarily done by providing a platform such as the seasonal Canara Utsav/ bazar/ mela, for women entrepreneurs to market and sell their products at a greater scale. In addition to this the CED has launched the 'Nammura Santhe'-a mobile van for marketing and selling products produced by women entrepreneurs. However they noted that their most effective activity was increasing awareness on the available opportunities and finance options to women, through a dedicated officer for it at every circle office.

How are they Impacting Women Entrepreneurs?

Most women entrepreneurs are found in traditional sectors which most instituitions view as unviable. However, Canara bank not only helps these women access finance at competitive rates, but also support their business through marketing opportunities and selling platforms. Moreover, the CED also independently provides complete support to the women entrepreneurs while accessing finance.

Way Forward

Despite considerable efforts in supporting women entrepreneurs, most of Canara bank's operations continue to be in the area of micro credit. There is a need to further diversify the scope of its inclusion strategy to encourage more women in the MSME category.

05

Accelerating Access to Credit

The following section recommends ways to improve access to credit for women entrepreneurs. The recommendations are targeted at financial institutions, Government and also include areas for focus for women. The recommendations are structured based on the demand and supply issues identified namely; awareness & knowledge, risk and process. The section also presents a set of global good practices adopted by banks in addressing challenges facing women and MSMEs. Key recommendations are illustrated in the figures below.

The findings illustrate that the biggest challenges bankers encounter when lending to women MSMEs is the lack of information and better risk models. Women on the other hand are constrained in meeting lending requirements primarily due to; lack of awareness, financial illiteracy and socially constraining factors that limit their access to assets. A first step to accelerating women's access to credit is to plug the inefficiencies in information access and to develop better risk models.

Recommendations

Demand Driven Issues

1. Empower women MSME clients through Non – Financial Support
2. Build non-credit banking relationships
3. Government subsidies for credit rating
4. Business Associations to provide credit referrals and undertakings
5. Greater Emphasis on Qualitative Credit Assessment Mechanisms
6. Gender sensitisation of financial institutions

Supply Side Issues

1. Estimate geographic concentration of women MSMEs in design of women only branches, sourcing information from Government databanks
2. Certifications for women 'managed' businesses
3. External Facilitators to Ease Processing
4. Technology based workflows and online credit application
5. Contact Centres
6. Partnerships with franchise businesses to ease appraisal process
7. Revisions in Government schemes

The figure below illustrates women's ability to meet credit appraisal requirements, issues faced in meeting the requirement and corresponding recommendations.

Demand Driven Issues and Recommendations

Credit Appraisal Requirements	Likelihood of women meeting the requirement	Issue	Recommendation
Documentation Evidence of financial statements, cash flows etc		Financial illiteracy and lack of awareness	• Package of services offered by bank to include non-financial services such as training and mentoring • External facilitators to generate awareness
Capital Personal capital as margin requirement		Limited personal capital and financial independence	• Women to build non credit relationships. Banks to lend after deposits are made for a minimum period
Credit rating Verifiable credit history such as credit rating score		Lack of awareness and inability to afford services of credit rating agencies	• Government subsidies for credit rating • Leverage potential of business associations in providing referrals/ undertakings
Collateral Access to fixed assets as collateral or a guarantor		Socially restricted access to property or assets leading to increased risk profile of applicant	• Use of qualitative credit assessment mechanisms • Explore risk sharing models • Gender sensitisation of staff on women's repayment ability and credit worthiness

Unlikely Plausible Likely Certain

Source: Athena Infonomics Research (based on qualitative & quantitative analysis)

On the supply side, as discussed in previous sections, process driven issues that relate to identification of genuine women entrepreneurs, marketing of products and schemes, application processes, turnaround times, issues in implementation of schemes further impede women's access to credit.

The following figure illustrates the process or supply driven issues and recommendations.

Supply or Process Driven Issues and Recommendations

	Sourcing	Processing & Disbursement	Collection & Settlement
Issue	Identification of women entrepreneurs and low uptake of schemes / products	Manpower constraints and high turnaround time	Delays in settlement period of Government run schemes
Recommendation	• Estimate geographic concentration of women MSMEs in design of women only branches • Credible certifications for women managed businesses	• Use of business correspondents to ease processes • Checklists of documents • Technology based workflows and online credit application • Contact centre or call centre model staffed with bankers • Partnerships with franchise businesses to ease appraisal process	• Scheme revisions in risk coverage, settlement period, sector coverage

An effective response to accelerating credit availability to women would require addressing both demand and supply side barriers. Issues such as the discriminatory attitudes of bankers to women, which stems from their perceptions of women's role in society and her capabilities, should be addressed through gender sensitisation and awareness programmes. A bank ultimately makes the decision to sanction a loan based on the risk profile of the applicant. Towards this end women are encouraged to increase their levels of financial literacy and interest in financial management. This would aid in reducing gender biases and raise confidence levels of women.

The following section provides a detailed overview of the recommendations.

I. Recommendations to Address Demand Driven Issues

This section provides a set of recommendations to address demand driven issues, it provides insights on the importance of the recommendation, proposed roadmap for implementation and best global practices if any.

❶ Empower women MSME clients through Non – Financial Support

Financial institutions are encouraged to provide non-financial support to women borrowers. These services could include:

- Provide financial literacy education to help women business owners improve access to credit. Areas for training include creation of financial statements, use of software such as Tally, loan application processes and creation of business plans
- Business advisory services including investment planning, risk management, etc.
- Awareness programmes on loan products and schemes
- Incubation centres to provide financing, entrepreneurial guidance and training for women entrepreneurs
- Offer women shared learning opportunities through social media

Implementation

Options for implementation include:

- Use of external facilitators or business correspondents in; creating awareness on loan offerings, guidance in loan application, basic advisory on financial management
- Package of non-financial services could be offered as part of the institution's CSR
- Tie-ups with training associations

Best Practice

Standard Chartered Banks' Women in Business Resource Centre

Standard Chartered banks seeks to provide financial literacy, financial planning, investment and capacity building support for women owners of small businesses through the Women in Business Resource Centre. This is an online tool available in nine languages to help women start and grow their enterprise. The website includes modules and exercises on business planning, leadership skills and finances. Further it offers practical information such as analysing balance sheets, controlling cash flow as well as tools that have been specifically designed for women entrepreneurs, such as leadership practices, management styles, and negotiation skills. It also highlights inspirational video case studies of role models from Bangladesh, Singapore, Nigeria and Hong Kong in order to provide examples of successful entrepreneurship.

Impact

Increase in financial literacy levels of women thereby empowering them with financial independence and freedom to take independent decisions. Raises women's awareness and knowledge of existing support systems and processes in availing support.

❷ Build non-credit banking relationships

Trust is a key factor in lending not only for a banker; finding trustworthy channels of credit is an important factor influencing the decision of a women borrower too. Findings indicate that having a banking history positively influences lending decisions; women with a banking history were also more likely to avail a loan than others.

This is a relatively easier credit assessment criteria for women to fulfil in comparison with provision of collateral or guarantors for their loans. However the importance of this factor is unknown to women. Establishing a banking relationship increases the comfort factor for bankers, reducing risks in lending.

Implementation

Options for implementation include:

- Bankers to encourage women applicants to create deposits and lend after a minimum period to address issues of risks in lending
- Banks could position low cost relationship managers in branches catering to the target market. The managers could be recruited from the surrounding community, thereby enabling greater interaction
- Create awareness around the importance of establishing a banking relationship among women through marketing campaigns and external agents

Impact

Community Relationship Managers would know their clients and businesses well allowing for closer monitoring. Access to relationship managers would not only increase women's probability of availing loans but also increase their awareness and knowledge levels.

3 Government subsidies for credit rating

Credit ratings enhance the acceptability of an MSME in the market, making access to credit quicker and cheaper. The Ministry of MSME had instituted the Performance and Credit Rating scheme that subsidises upto 75% of the rating fee for MSMEs. The scheme has great potential to impact women enterprises, given their constrained access to other forms of credit appraisal requirements. It is recommended that the scheme be made women friendly by increasing the subsidy limit.

Implementation

Options for implementation include:

- Increase awareness of the scheme among women enterprises
- Ministry of MSME to extend subsidy to women enterprises

Impact

Increases affordability of credit ratings for women enterprises. Access to ratings reduces risk profile of the borrower and increases probabilities of lending.

4 Business Associations to provide credit referrals and undertakings

Business associations could adopt a credit referral system whereby they could offer referral services to financial institutions connecting women with viable business. These business associations can provide women entrepreneurs with information regarding the various financial products and support them by evaluating their business plan and documents. Business associations could also provide undertakings in the case of default.

Implementation

- Partnership can be brokered among business associations and financial institutions where the preliminary evaluation of the loan proposal happens at the office of business associations and final evaluation and approval is done by the banks.
- Business associations can aid the financial institution in the credit monitoring and collection phase by monitoring the status of repayment.
- Exploration of collective risk sharing methods through business associations

Impact

Easier access to credit for women through existing networks, reducing efforts taken towards persuasion of bankers. Industry associations would prove to be a more relied source for banks.

❺ Greater Emphasis on Qualitative Credit Assessment Mechanisms

Women MSMEs lack credit histories, information on the financial soundness of their business and access to collateral. Banks are encouraged to explore non-conventional tools for credit assessment by assigning greater weights to qualitative factors such as:

- Integrity of the borrower
- Business ownership structure
- Competitiveness
- Relationship with the bank
- Relationship with suppliers & customers

Alternates for fixed forms of collateral include;

- Credit insurance
- Cash flow estimations

Implementation

Specifically in the case of women MSMEs, banks could modify their appraisal criteria to fit a working capital based portfolio rather than a fixed capital based one. Banks worldwide have adopted alternate appraisal mechanisms such as psychometric tests that capture the integrity of the borrower and management of the firm.

Best Practice

Improving access to finance through Psychometrics

Banco Itau in Brazil is implementing the psychometric credit risk scoring model to improve the bank's lending methodology for SMEs and thereby increase its capacity to support access to finance for 160,000 women-owned enterprises. This is an automated screening tool that takes into account entrepreneurs' honesty, intelligence, personality, among other personal qualities, to gauge their ability and willingness to pay back loans. This alternate credit scoring tool seeks to address some of the institutional barriers to access to finance including scant credit records, absence of collateral and high cost of administering loans. This model goes beyond the traditional methods that focuses on collateral and future cash flows to assess financial risks and has tremendous impact in improving access to finance. Research studies have indicated that banks implementing the Psychometrics scoring model have increased their percentage of lending to women owned SME by 70%; this is an additional $45 Million of additional lending.

Impact

Non conventional appraisal mechanisms would help reorient initiatives aimed at reduction of negative bias towards women from the 'front end' of operations to 'back end', making back end appraisal processes more gender sensitive and more impactful on lending decisions and access to credit.

❻ Gender sensitisation of financial institutions

One of the common criticisms expressed by women entrepreneurs is the gender bias of the financial institutions. They feel that banks are unresponsive to the demands of women entrepreneurs and are usually unwelcoming. To address this concern, the banking institutions needs to focus on training the existing staff on how to engage with the women entrepreneurs. Women entrepreneurs have a different set of financial needs and women's ways of doing business are different from that of men. Bankers need to be cognizant of these aspects.

Implementation

- Set internal targets and goals to accelerate women's access to credit
- Gender sensitisation trainings and toolkits for loan officers, including women employees of the bank. Prior research indicates that more often than men, women tend not be gender linguistic when dealing with the same sex, questions on marital status are posed more often by women than men. This necessitates that women employees are also targeted in these initiatives
- Women are seen to have lower default rates than men, yet women are perceived as higher risk. Financial institutions to disseminate

- information on credit profile of women and repayment patterns.

  - Gender based financial and social performance indicators could be introduced by financial institutions that will enable them to measure how well they are serving women. These benchmark measures serve as the minimum that industry stakeholders could use to track and improve their gender performance. Specific polices to direct introduction of such measures and targets could be developed by the Reserve Bank and Central Ministries

Best Practice

Wells Fargo's Women Business Program is a comprehensive business development service for women entrepreneurs to increase their access to capital and related services through outreach and education. Launched in 1995, the program provides the following services: providing financial tools, research, financial guides, workshops, seminars, building partnerships with national and regional organizations, and an annual "Trailblazer" award to recognize the business achievements and leadership of women entrepreneurs. Since the program was launched in 1995, Wells Fargo has loaned more than $35 billion to women business owners. By 2006, the program saw more than 700,000 loans to women-owned small business, exceeding $25 billion.

Impact

Equitable access to credit for women by eliminating gender insensitivities in lending. Greater awareness on women's better repayment abilities would help remove perceived stereotypes associated with women being 'high risk'.

Case Study-Market Research & Customer Segmentation

Royal Bank of Canada

RBC Royal Bank

What is Different about RBC?

Royal Bank of Canada (RBC) extensively uses market research to better understand and serve their women clients. RBC Economics is a dedicated wing with a mandate to take timely and relevant analysis and forecasts of the economy and financial markets in Canada, the United States and key international markets to RBC and its clients. This department is also responsible for understanding women clients through demographics, attitudes, gender dynamics, and segmentation. Market research and segmentation used by RBC develops greater understanding of the differences between women and men in terms of spending and saving priorities, cash flow needs and attitude towards risk and growth thereby better serving women owned SME.

Further, to better understand Women's different needs as customers, RBC devised the 100 Women's Market Champion (WMC) Programme. WMC are managers dedicated to serving women clients and provide inputs to the core team on how to better serve their women clients. They are also entrusted with the task of providing refresher training sessions for staff and updating the internal website with news on the women's market and leading their awards programme.

Outcomes

Through these concentrated efforts, RBC have been able to achieve the following,

- Over one-third of RBC's business revenue comes from women clients, both small businesses and commercial businesses
- A higher average number of loans to women clients (3.8) compared with Canadian average (3.5)

II. Recommendations to Address Supply Side Issues

This section provides a set of recommendations to address supply side issues in credit to women enterprises. It also provides insights on the roadmap for implementation and best global practices if any.

❶ Estimate geographic concentration of women MSMEs in design of women only branches, sourcing information from Government databanks

MSMEs are typically more dispersed in emerging markets. To add to this, identification of formal women-run enterprises is a challenge given several women enterprises are home based particularly in Tier 2 and 3 cities. Bankers attribute the poor success of women-only branches to inappropriate location of branches. Women-only branches are seen to be located in highly competitive upmarket financial areas, requiring women borrowers to travel long distances. It is recommended that financial institutions estimate the geographic concentration of women MSMEs in designing women-only branches.

Implementation

- Banks in South Africa have undertaken geographic estimation of MSMEs at the municipal level through micro market sizing techniques
- Banks could obtain databases providing registration details of women MSMEs from Government

Impact

Helps identify target borrowers for women specific products and programmes. Increases impact of women- only branches by increasing uptake levels.

❷ Build non-credit banking relationships

Banks indicate that identification of women-managed enterprises is a challenge, given that several women owned enterprises are only owned in name by women but managed by men. To address this issue, the Government could enter into partnerships with certification agencies that certify woman managed enterprises, such as WEConnect International.

Implementation

- Government could offer subsidies for obtaining such certificates as they are heavily priced
- Banks could ensure lending to genuine women enterprises by making certification a part of the selection criteria

Impact

Helps identify genuine women-owned enterprises. Avoids misuse of subsidies and programmes meant to benefit women.

❸ External Facilitators to Ease Processing

Innovations in distribution channels used to reach out to women could significantly lower costs for banks. External facilitators or business correspondents (BC) can aid in reducing manpower constraints particularly in MSME banking. Some banks in India have successfully adopted this model whereby deposits can be made with a BC on a daily basis. BCs help educate borrowers in loan application processes.

Implementation

- Banks could recruit women BCs to increase the comfort factor for women
- BCs could help women borrowers in the application process and educate them on financial management

Best Practice

With close to 400,000 banking correspondents as of November 2013, Brazil has the largest banking agent network in the world. Central Bank of Brazil allowed banks in 2003 to contract with 'bank correspondents' to provide ten basic banking services including deposits, withdrawals, bill payments, new account openings, money transfers, insurance, airtime top-up and government benefit and pension receipts. Bank correspondents play a critical role in expanding the supply of banking services in Brazil. Partnership with SME suppliers and service providers located in areas where there is no bank presence or areas of strategic importance, to provide banking services allows banks to offer services to MSME sector with little investment/ cost. For eg. The Banco Nacional de Desenvolvimento Economico e Social (BNDES) provides financial services for small and micro enterprises, especially through its Visa card program linked to pre-approved vendors with purchases handled through a dedicated website.

Impact

Reduced manpower costs for banks, ease of processes for borrowers and increased information dissemination and financial literacy among women.

❹ Technology based workflows and online credit application

Technology could significantly lower MSME operating costs. Banks in other emerging markets have introduced online mechanisms for credit application and loan processing whereby clients can apply for rolling credit, be assessed and obtain approval online. These are effective for small ticket size loans. Further, technology enabled workflows could be introduced to streamline loan approvals, by easing movement of applications between employees.

Best Practice

IDBI bank provides 'on the go' loan approval power to its employees. This is done by using technology workflows for the loan approval mechanism, reducing turnaround time.

Implementation

- Checklists of loan documentation requirements to be made available on bank online platforms
- Reserve Bank to issue guidelines on online credit and approval mechanisms, highlighting credit limits and maximum processing and turnaround time for such loans

Impact

Reduced turnaround time and lower manpower costs. Ease of use and convenience for borrowers.

5 Contact Centres

A contact centre model adopts a tele- banking approach, wherein call centres of banks are staffed with bankers instead of call centre agents. This approach requires minimum level of face to face interaction with a branch and could potentially reduce operating costs significantly.

Implementation

- Banks could staff a part of their call centres with bankers
- Borrowers would need to make a personal appearance at a branch at the initial stages of application, after which they can be migrated to remote channels
- Remote channels could also be adopted to provide information on services

Impact

Reduced turnaround time and lower manpower costs for banks. Ease of use and convenience for borrowers

6 Partnerships with franchise businesses to ease appraisal process

Women business enterprises predominantly operate in the space of retail trade and services. Banks could offer waivers in appraisal requirements for franchise based retail models.

Implementation

- Current franchise lending models exist in India and are promoted by SIDBI
- Banks are widely encouraged to take up this form of lending

Best Practice

Bharatiya Mahila Bank's tie up with firms such as Naturals & Cavin Kare, eases credit appraisal requirements for their proposed franchisees.

Impact

Reduced turnaround time and lower manpower costs. Ease of convenience for borrowers. Encourages women enterprises to expand their business and makes the process of franchising less daunting.

7 Revisions in Government schemes

The CGTMSE scheme is faced with several drawbacks such as delays in settlement period upon default. Given the scheme's potential to impact women enterprises it is recommended to revise the scheme for greater efficiency and reach to women enterprises.

Implementation

- The CGTMSE cover should be extended to retail sector, which has a dominant proportion of women entrepreneurs
- Government mandate of collateral free loans upto INR 10 Lakhs should be increased particularly for women. Banks may charge higher interest rates to cover for risks
- Revising settlement periods and risk coverage

Impact

Increased scheme efficiency and greater impact in catering to women enterprises.

III. Other Recommendations

Multilaterals, not-for-profits and other entities have an important role to play in accelerating women's access to credit. Not-for-profit institutions and multilaterals should be encouraged to enter into partnerships with financial institutions to enhance the capabilities of these institutions to better serve women and to help design non- financial support services for women MSMEs. This could include specific gender initiatives that re-orient organisations towards promoting and strengthening the untapped potential of women enterprises. The process would involve:

- Setting targets and goals to be achieved in the long and short term to accelerate women's access to finance
- Identifying key activities and programmes for implementation based on a baseline need assessment of women MSMEs
- Provide a implementation plan with expected budgets
- Create a set of indicators to monitor progress
- Create training programmes to be delivered to bank staff on gender awareness and adopting gender-informed strategies and techniques
- Host training workshops for women entrepreneurs in partnership with banks
- Support the banks in creation on online information dissemination platforms for learning and sharing experiences

The above collaborations would ensure that partner banks efficiently target the under-served women enterprise market.

Appendix

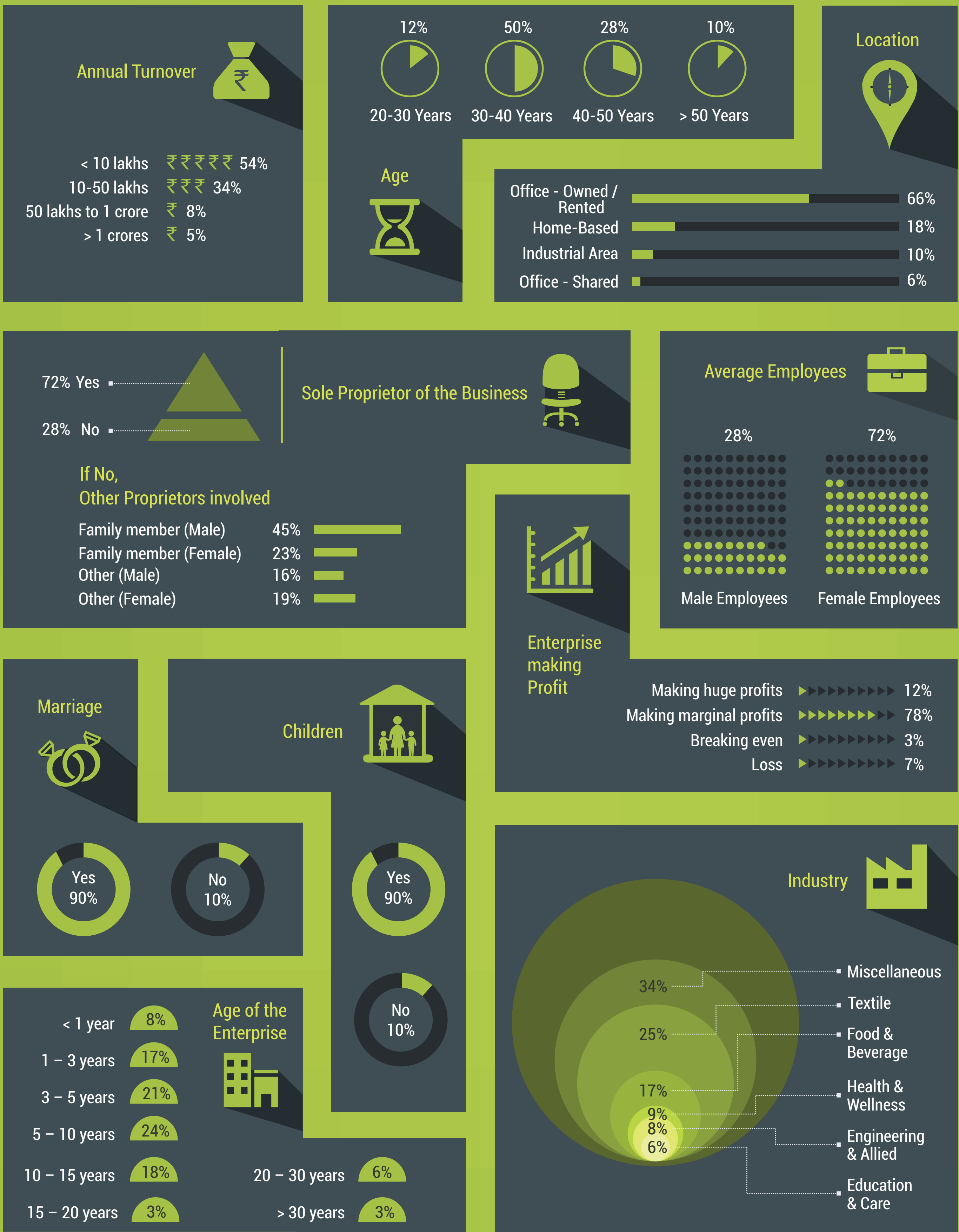
Proportion of Lending to Women MSMEs

Bank	Credit To Women SSIs (In Lakhs)	Total Credit to Micro and Small Enterprises (in Lakhs)	% Lending to Women SSIs	% of Net Bank Credit to Women
Allahabad Bank	92957	1951966	5	5
Andhra Bank	61303.53	1380187	4	12
Bank of Baroda	73254.22	4779962	2	4
Bank of India	374779	3508122	11	10
Bank of Maharashtra	23968.18	1509825	2	5
Cannara Bank	406199.82	3561938	11	16
Central Bank of India	108367	2166310	5	8
Corporation Bank	147081	2356055	6	6
Dena Bank	65092.37	1180080	6	5

Bank	Credit To Women SSIs (In Lakhs)	Total Credit to Micro and Small Enterprises (in Lakhs)	% Lending to Women SSIs	% of Net Bank Credit to Women
IDBI Bank	56818.49	2219079	3	6
Indian Bank	210776.27	1326142	16	13
Indian Overseas Bank	356602.02	2317399	15	15
Oriental Bank of Commerce	137871	2617231	5	5
Punjab & Sind Bank	38437	673920	6	5
Punjab National Bank	199564	5176533	4	5
State Bank of Bikaner and Jaipur	3299	836653	0	5
State Bank of Hyderabad	1119	1099502	0	9
State Bank of India	293423	7758409	4	7
State Bank of Mysore	2266	452383	1	7
State Bank of Patiala	38216	1398489	3	6
State Bank of Travancore	144313	722442	20	13
Syndicate Bank	118281.25	1758342	7	7
Union Bank of India	43201	2638899	2	6
UCO Bank	146094.64	3172611	5	5
United Bank of India	34508.21	1123802	3	5
Vijaya Bank	110149.78	1056113	10	7

Source: RBI, 2014

Profile of Women Borrowers



Banking Profile

Loans

Availed	28%	
Sought	28%	
Did not Seek	43%	

Financial Institutions

Public Sector Bank	68%
Private Sector Bank	32%
Micro Finance Institution	5%
Non Bank Finance Corporation	5%

Banking History

< 10 Years	10-20 Years	> 20 Years	None
41%	35%	18%	6%

Independent Access to Collateral or Fixed Assets

Yes 42%

No 58%

Training for Managing Financial Aspects of Business

Yes 8%

No 92%

Opinions sought to Finance Enterprise

	Yes	No
Financial Consultant	71%	29%
Family Member Advice	95%	5%
Cost Evaluation	76%	24%
Approach Bank	79%	21%
Mentor Advice	58%	42%
Other Entrepreneur Advice	64%	36%

Sources of finance

89%	Family / Friends
9%	Other businesses
31%	Banks
7%	Equity Investment
15%	Partner
6%	Other Loan Sources

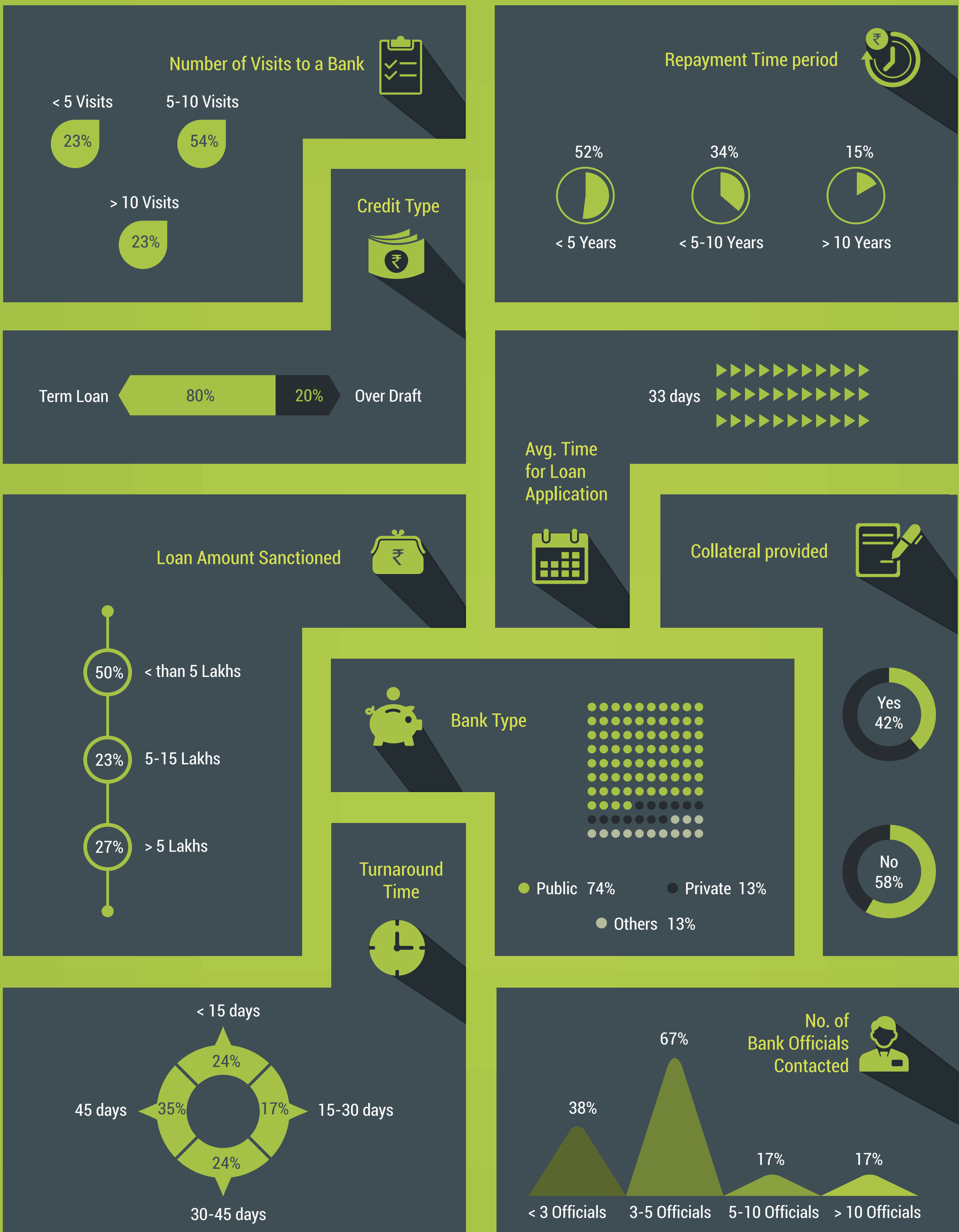
Reasons for choice of bank

Client Business	27%
Local Bank Branch	69%
Best Interest Offer	46%
Best Non Interest Offer	19%
Emphasis on Smaller Firms	44%
Emphasis on Women Entrepreneurs	15%
Good Client Relationships	36%

Preference for Source of Finance

	Preference		
	High	Low	No
Public Sector Bank Loan	65%	26%	9%
Private Sector Bank Loan	19%	68%	14%
Other Financial Institution	16%	61%	23%
Equity	7%	63%	30%
Personal Savings & Borrowings	81%	16%	3%

Credit Access



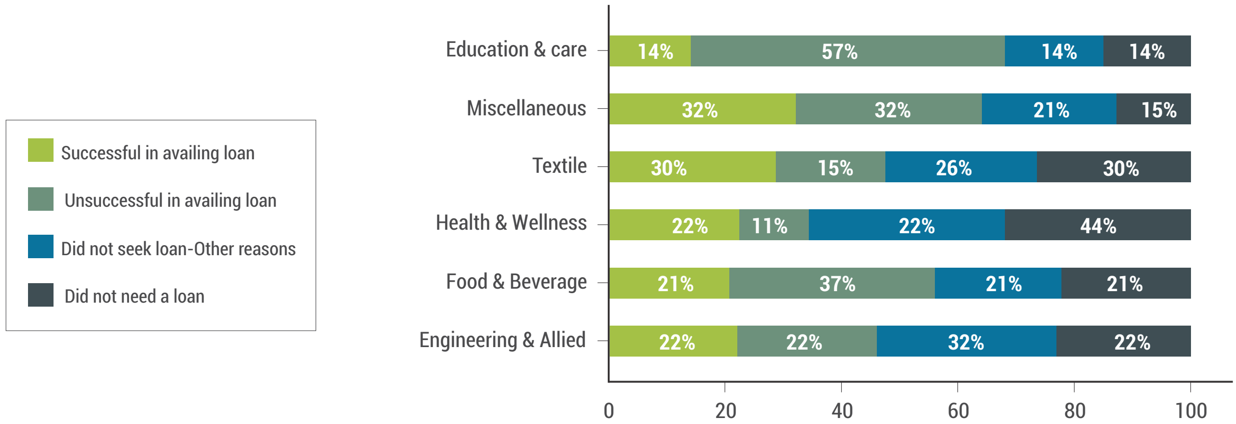
Profile of Women Entrepreneurs

The following section provides insights on the profile of women borrowers interviewed who availed loans as against those who were

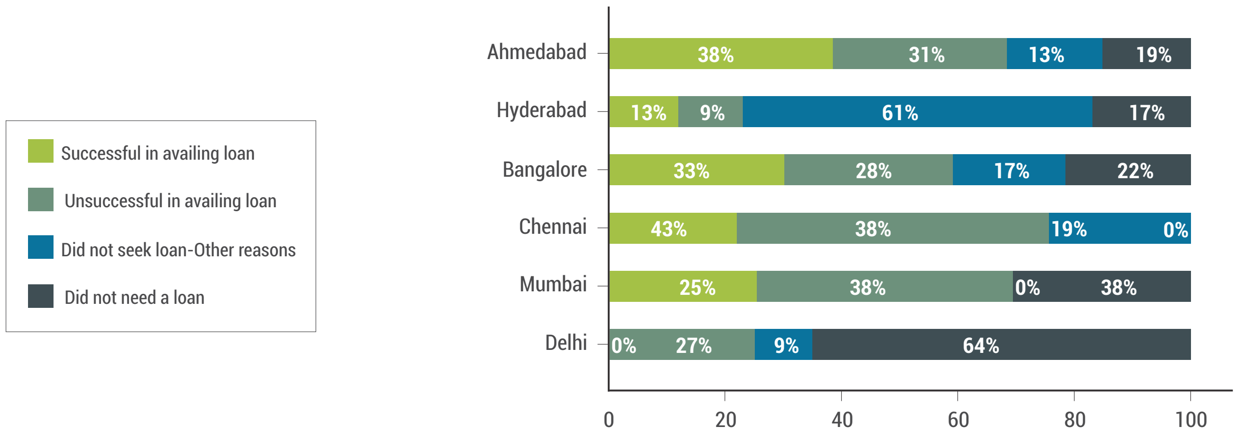
- not successful in availing a loan
- Did not need a loan and
- Did not seek a loan for other reasons such as cumbersome processes etc.

Findings indicate presence of male partners increases success of loan applications.

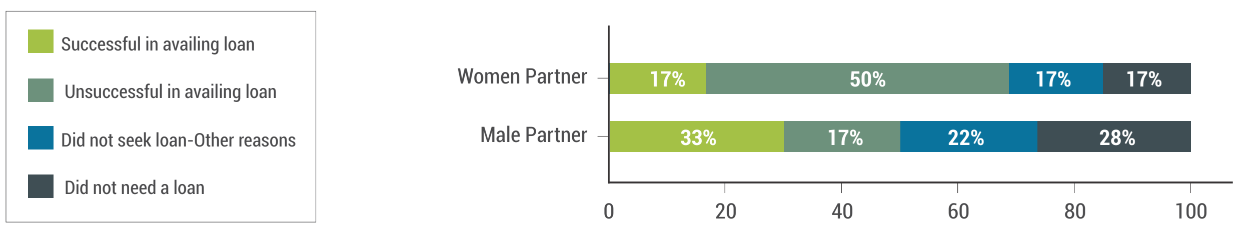
Sectoral Profile



Geographic Profile



Presence of Male or Female Partner in Business



Source: Athena Infonomics Research

Detailed Approach & Methodology

I. Preparatory Phase

The project began with a review of existing literature and support schemes to understand the existing financial ecosystem for women in the country, focusing on the MSME sector. This review was complemented by the compilation of a database of loan products/schemes offered by all public sector banks' to MSMEs. This database further drew upon the provisions made for women entrepreneurs, by segregating the schemes as follows:

- Women Specific Schemes: An institution's MSME specific schemes which are exclusively for women entrepreneurs.
- Women Friendly Schemes: An institution's MSME specific schemes which provide special concessions to women entrepreneurs.
- Government Sponsored schemes: An institution's MSME specific schemes which are sponsored by the government.
- Bank Initiated Schemes: MSME specific schemes which were independently initiated by the institution.

Preparation of Research Instruments

A review of the financial ecosystem for women and support schemes helped create research instruments, by identifying key areas for investigation and analysis. These were subsequently used to develop questionnaires and discussion guides for the two sets of stakeholders namely; the bankers/providers of financial services and women entrepreneurs.

II. Banker Assessment

Detailed sampling strategy

At this stage the method of banker sampling was finalized after client and expert consultation. A sampling criterion was developed to shortlist banks and schemes for further investigation. This was based on the following parameters:

- Banks offering women-specific and women-friendly schemes
- Large public and private sector banks that have received recognition for their efforts towards MSME financing
- Banks that do not have any focus on women MSMEs (control group)
- Access factors

This assisted in narrowing down the sample to 18 banks for further consideration- 16 from the public and 2 from the private sector. A detailed list of banks we interacted with has been given in the annexure.

Data Collection

At this stage in-depth qualitative interviews were conducted with providers of financial services. This included interactions with bankers at various levels (DGM/ AGM and BM levels), to capture a holistic picture of the targeted loan products/schemes. For instance, while interactions at the Branch Manager level better captured the loan processing intricacies, interactions at the General Manager level were essential to understanding the formulation and functioning of the schemes. Moreover, their overlapping areas of expertise also ensured a measure of checks and balances, particularly against prejudiced procedural perceptions.

The discussions, with the bankers and scheme administrators, were designed to take a life cycle perspective. Thus for a comprehensive analysis, interactions were designed to elicit inputs on the following financial and non-financial parameters of the loan programme/ schemes under consideration:

- Programme design mechanism (internal)
- Eligibility criteria
- Enablers and barriers to uptake
- Marketing and Channel strategies
- Back end (process) redesign if any
- Programme features
- Uptake trends
- Experience of lenders and agents (risk/ return)

Such an approach ensured identification of the various incentives and challenges, at all stages of the loan programme/ scheme. An understanding of this is essential for the formulation of recommendations and successful interventions.

Data Analysis and Presentation of Findings

After receiving inputs from all the identified bankers and scheme administrators, detailed analysis was conducted to assess the suitability and effectiveness of the loan programmes/ schemes. This included a macro level evaluation of the effectiveness of women specific schemes, using regression in the following manner:

Amount outstanding to women SSIs	Coefficients	Standard Error	t	p > (t)	95% confidence interval	
					Lower Bound	Upper bound
Women scheme	.9997712	.4647473	2.15	0.043	.0359444	1.963598
Geography	.1486083	.5147726	0.29	0.776	-.9189648	1.216181
Total ANBC	1.225816	.3703428	3.31	0.003	.4577724	1.99386

A bank's lending to women owned SSIs (Amount outstanding to women SSIs) was regressed on the inclusion of women specific schemes (Women scheme) controlling for the bank's location (Geography) and size (Total ANBC). The location was determined based on the bank's predominant presence as a lead bank, in South and non-South regions. This was to control for the demographic characteristics which may influence lending to women owned enterprises. For instance, better literacy levels in the southern states may entail greater lending in the region. The regression output above reflects the significance of each variable through its p-value (p>|t|). A p-value less than 0.05 for 'Women schemes' indicates that it has a significant impact on the bank's lending to women entrepreneurs at the 95% confidence interval.

III. Borrower Assessment

Detailed sampling strategy

At this stage the method of borrower sampling was finalized, post client and expert consultation. Broadly, this entailed sampling women entrepreneurs based on their financing status, venture size and a balanced mix of geographies - across 5 metros and 2 Tier II cities. Thus, 110 women entrepreneurs were sampled from Chennai, Delhi, Bangalore, Hyderabad and Ahmedabad.

Mobilization Strategy

This stage involved devising a strategy to reach out to the target sample. It primarily entailed connecting with women associations and business associations, such as: e-MERG, WEConnect International, TiEStree Shakti, National Entrepreneur Network, CII, etc. Existing Government data banks were also tapped into. Additionally, non-probability sampling techniques were deployed.

Data Collection

Data was collected using structured interview guides. For a more comprehensive analysis, the questionnaires were designed to take a two-fold approach, in the following manner:

1. The aim of the first approach is similar to that used for the bankers, capturing a sequential life cycle process of needs as follows:
   - Need recognition
   - Awareness of options (loans and schemes)
   - Evaluation mechanism for options
2. The second approach sought to collect inputs on the relative importance and perception of existing products (loans and schemes), based upon the following factors:

- Eligibility features
- Channel availability and engagement
- Pricing and tenor
- Operational turn around
- Relationship management

Thus the guides captured parameters pertaining to both, assessing the need for funds and actually obtaining the funds.

Data Analysis and Presentation of Findings

After receiving inputs from all the identified women entrepreneurs, a detailed analysis was conducted to identify their key barriers in accessing finance. This was done using statistical tools to explore causal relationship patterns amongst women's banking and business profile on lending outcomes. The following equation was estimated using Logistic regression to evaluate the impact of non credit factors in availing loans.

$$S_i=0.205+1.62h_i+1.32a_i+u_i$$

S-Probability of seeking a loan

h-Years of banking history (by category)

a-Enterprise's age (by category)

u-Error term

i-Women owned enterprises

An enterprise's age and the entrepreneur's banking history were noted as important non -credit parameters in determining whether the entrepreneur would seek institutional credit. This relationship was observed at the 10% significance level for both the parameters (indicated by the 'p' value in the above table). Therefore with 90% probability it can be said that, an enterprise's age and the entrepreneur's banking history will determine whether they seek a loan. Being a logit regression, the coefficients in the equation above indicates a change in the parameter's 'Odds Ratio'- the ratio of the probability of success to failure. It was thus noted that with all else constant, a one unit increase in the enterprise's age increases their odds of seeking a loan by 1.32. Similarly, holding all else constant, a one unit increase in the entrepreneur's banking history, increased their odds of seeking a loan by 1.62.

IV. Recommendations

The final stage involved synthesising recommendations to address demand and supply side constraints in credit access, highlighting the implementation roadmap and benefits of the recommendation.

List of Banks and Stakeholders Interviewed

Bank of Baroda	State Bank of Mysore
Bank of India	UCO Bank
Bank of Maharashtra	Union Bank
Canara Bank	Vijaya Bank
Central Bank of India	DIC
Oriental Bank of Commerce	KFC
Punjab National Bank	KWDC
Bharatiya Mahila Bank	RBI
Dena Bank	Axis Bank
IDBI Bank	HDFC-SLI
Indian Bank	Shriram City
State Bank of India	

Key References

Asrani Radhika & Ramaswamy Anupama. (2014). Accelerating Women Entrepreneurship: Roadmap for the National Capital Region: Athena Infonomics, GIZ.

Asrani Radhika & Ramaswamy Anupama. (2013). Accelerating Women Entrepreneurship: Roadmap for Mumbai: Athena Infonomics, GIZ.

MSME Census. (2007). Fourth All India Census of Micro, Small and Medium Enterprises - Registered Sector. India: MSME Census

MSME Census. (2007). Fourth All India Census of Micro, Small and Medium Enterprises - Unregistered Sector. India: MSME Census

Allen, I. E., Langowitz, N., & Minniti, M. (2007). Global entrepreneurship monitor. 2006 Report on Women and Entreprenurship.

Global entrepreneurship and development institute. (2014). Gender-Global Entrepreneurship and Development Index Executive Report.

Reserve Bank of India-Rural Planning and Credit Department. (2000). Strengthening of credit delivery to women particularly in Tiny and SSI sector.

IFC. (2014). Improving Access to Finance for Women-owned Businesses in India.

Powers, J., & Magnoni, B. (2010). A Business to Call Her Own: Identifying, Analyzing and Overcoming Constraints to Women's Small Businesses in Latin America and the Caribbean. Multilateral Investment Funds

Hertz, N. (2011). Women and Banks.

Klapper, Leora, and Bilal Zia. (2009). Financial Stability and Access: The Importance of Financial Literacy. Research Brief, Development Research Group, World Bank, Washington, DC, January.

Goldsmith & Goldsmith. (2006). The Effects of Investment Education on Gender Differences in Financial Knowledge. Journal of Personal Finance.

About the Partners

SIDBI (Small Industries Development Bank of India) and GIZ are implementing a Responsible Enterprise Finance Initiative that aims to promote the integration of (ESG) factors in lending and investment decisions of financial institutions with a focus on the Micro, Small and Medium Enterprises (MSME) sector. The focus areas are:

- Integrating ESG Risk Management in MSME lending processes and systems
- Developing sustainability-oriented products and services for MSMEs
- Increasing the access of risk capital for start-ups and social enterprises
- Building consensus and developing ESG guidelines, guidance and non-financial reporting framework for the financial sector

ATHENA
INFONOMICS
Data Science for Development

Athena Infonomics is a research and consultancy firm with a strong focus on bringing an analytical approach to solving development and inclusive growth issues. Athena lies at the intersection of the public and private sector, seeking to catalyze multi stakeholder approaches for solving some of the most challenging problems of developing nations. Supported by an active network of distinguished industry veterans, policy makers, academicians and intellectuals, the team at Athena consists of a diverse mixture of educational and professional backgrounds - from engineering, management, economics, statistics and development - from some of the top educational institutions in the world. Athena distinguishes itself through an unflinching dedication to leveraging cutting edge research methods and tools for modelling phenomenon and deriving solutions. Conceptual depth, analytical rigor and holistic multidisciplinary approaches characterize our solutions.

Published by
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany
T: + 49 228 44 60-0 (Bonn)
T: + 49 61 96 79-0 (Eschborn)

Responsible Enterprise Finance Programme
Private Sector Development
2nd floor, B-5/1, Safdarjung Enclave
New Delhi 110029
T : + 91 1149495353
F : + 91 1149495391
E : devyani.hari@giz.de
I : www.giz.de

Responsible
Devyani Hari, GIZ

Editorial and Research
Athena Infonomics

New Delhi, July 2015