Gender Credit Delivery and Credit Absorption

ISED Discussion Paper

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by

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jointly with

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Institute of Small Enterprises & Development

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PREFACE

Targeted credit delivery is a thorny issue around the world. Legislation and creation of institutional structures can contribute significantly to providing the ecosystem. However, the actual flow of credit to the targeted social categories, depends on the absorptive capacity of these social categories and their enterprises. While absorptive capacity of women enterprises depends on their viability and vibrancy, it is also important that, from an angle of gender sensitivity, the other stake holders should play a supportive role to creating and enhancing such absorptive capacity. It is important to discuss this rather difficult subject ,on the basis of the evidences available from the field.

As rightly pointed out by Dr. K. C. Chakrabarty Committee, financial inclusion is multifaceted concept, where financial and non financial aspects play their relative roles. While public policy interventions so far have significantly focused on financial aspects in general, and technology in specific, the non-financial interventions are relatively weak. It is important that business development services (BDS) are given a special focus by streamlining the institutional and policy instruments.

Kochi
March 05, 2016

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Abstract

Targeted credit delivery is a thorny issue around the world. Legislation and creation of institutional structures can contribute significantly to providing the ecosystem. However, the actual flow of credit to the targeted social categories, depends on the absorptive capacity of these social categories and their enterprises. While absorptive capacity of women enterprises depends on their viability and vibrancy, it is also important that, from an angle of gender sensitivity, the other stake holders should play a supportive role to creating and enhancing such absorptive capacity. It is important to discuss this rather difficult subject ,on the basis of the evidences available from the field.

Keywords : institutional credit, field evidences.

1.0 Introduction

Targeted credit delivery is a thorny issue around the world. Legislation and creation of institutional structures can contribute significantly to providing the ecosystem. However, the actual flow of credit to the targeted social categories, depends on the absorptive capacity of these social categories and their enterprises. While absorptive capacity of women enterprises depends on their viability and vibrancy, it is also important that, from an angle of gender sensitivity, the other stake holders should play a supportive role to creating and enhancing such absorptive capacity. It is important to discuss this rather difficult subject ,on the basis of the evidences available from the field.

2.0 Emerging Trends in Credit Delivery

The demand and supply of credit for the MSMEs is a matter of heated debates. A review of some of the relevant studies may be useful in this context. A methodological approach to analysis of the problem has been provided by a study on Irish SME credit supply and demand: comparisons across surveys and countries. The study provides a consistent picture of Irish SME credit supply and demand up to March 2012 across two data sources: the European Commission and European Central Bank Survey of Access to Finance of Small and Medium Enterprises (SAFE) and the Mazars SME lending demand survey, commissioned by the Department of Finance. The above data report that the Irish rejection rate for credit applications is the second highest in the euro area, while Irish SMEs are among the most likely to have faced increased collateral requirements, increased interest rates, or lower loan quantities. On the demand side, the data depict Irish credit demand, as measured by changes in firms' reported need for external financing, to be at or close to the euro area average, while application rates for credit are slightly lower than average. The difference between Ireland's ranking on demand and application rates is partly explained by a share of discouraged borrowers, who have demand for credit, but do not apply for credit, that is double the euro area average.

An empirical analysis on a U.S small business finance data-set to investigate which factors affect the likelihood of being a discouraged borrower, provides some important methodological insights(Han, Liang et. al….). It shows that riskier borrowers have higher probabilities of being discouraged. The results suggest that, in the US, discouragement is an efficient self-rationing mechanism, in that high risk borrowers are more likely to be discouraged than low risk borrowers, and the efficiency of this mechanism increases as information asymmetries are resolved. It has also been reported that low risk borrowers are less likely to be discouraged in concentrated markets than in competitive markets. In concentrated markets, high risk borrowers are more likely to be discouraged, the longer their financial relationships. These results suggest that discouragement is more efficient in concentrated markets than in competitive markets. There is little evidence to suggest that application costs discourage small businesses from borrowing

A study by the IFC shows that, financial institutions meet only 27 percent of the financing demand of women-owned micro, small and medium enterprises in India. The study titled Micro, Small, and Medium Enterprise Finance: Improving Access to Finance for Women-owned Businesses in India, undertaken by the IFC in partnership with the government of Japan, estimates that of the total financing demand of $158 billion (Indian rupees 8.68 trillion) for women-owned businesses, formal sources are able to channel only $42 billion (Rs. 2.31 trillion). This leaves a significant gap of $116 billion (Rs. 6.42 trillion) that financial institutions can meet through products and services tailored for women entrepreneurs. There are an estimated 3 million women-owned enterprises across industries, representing about 10 per cent of all MSMEs in India, and employing over 8 million people. The study notes that there is sound empirical evidence, particularly from developed economies, that women borrowers have stronger repayment history and present greater potential for cross- sales compared to male entrepreneurs, making them roughly twice as profitable for banks as a consumer segment.

An important factor for women-owned businesses to become viable in the present economic environment is, access to finance.. This segment is a significant market opportunity for banks in India, as also globally, as women entrepreneurs are often excellent long-term clients. The study recommends that banks can serve more women by lending to the services sector; about 80 percent of women entrepreneurs run businesses focused on services. Historically, banks have funded manufacturing enterprises, and relied heavily on collaterals to give credit, to the disadvantage of women-owned enterprises. Investing in women relationship managers, advisory desks at bank branches, and non-financial services and training will help promote women entrepreneurs holistically.

The growth of banking industry is closely interlinked with the growth of the economy. Slowdown in the economy in the past few years meant lower credit off take. With lower demand for credit, banks had no option but to invest in low yielding Government securities (G-sec). However with the recent recovery in the economy, the credit off take is likely to pick-up, and pick-up in credit off take means deploying funds to the commercial sector and earning a higher return than G-sec. While the recovery in the select sectors, like steel, textile and capital goods which have high credit consumption, has led to pick-up in credit off take in 2014, the trend is getting slowed down. The growth in non-food credit off take from commercial banks slowed to 10.19% at Rs.65,24,257 crores for the fortnight ended 6 March, according to Reserve Bank of India (RBI) data. On the other hand, bank deposits continued to outpace credit growth by rising 11.62% to Rs.85,54,045 crores in the period, as against Rs.76,63,535 crores in the same period last year. Advances of banks had stood at Rs.59,20,762 crore during the corresponding period of last year. Most banks have seen muted loan growth this year since the economy is yet to pick up. The country's largest lender, State Bank of India, saw a credit growth of 10% in the current fiscal. One of the reasons for muted credit growth is that corporate are raising funds from the commercial paper market, where rates are lower than base rate. According to some estimates, credit growth for this year, is in the range of 12-13%, but more towards the lower end of the range. According to ICRA, deposit was estimated to be in the range 11.5% to 13% in 2015-16. Demand deposits grew 14.13% to Rs.7,97,101 crores, as against Rs.6,98,356 crores in the year-ago period, while time deposits rose 11.36% at Rs.77,56,941 crores from Rs.69,65,179 crore. In the quarter ended December, bank credit slowed to 10.1%, as against 14.2% growth registered in the year-ago period. Deposits grew by 10.9% in the third quarter, which was slower than 15.4% growth registered in the year-ago quarter.

According to banking circles, credit was expected to grow by 14-16 percent 2015-16, on gradual pick-up in infrastructure activity, higher working capital needs and the retail segment.

It has been pointed out that the real momentum will only be in the second half (October 2015-March 2016). Besides, that being the busy season, the effect of the various steps to get stalled projects (in infrastructure) off the ground, and auctioning for coal blocks and for telecom spectrum are expected to become visible. In FY15, bank credit was Rs 766,305 crores, a 12.6 per cent growth on 2013-14. Almost a third (Rs 266,292 crores) was in the last fortnight. It had grown by 13.8 per cent in FY14 over FY13. According to Reserve Bank of India data, consumer credit grew 16.5 per cent in the 12 months into February 2015, better than 15.5 per cent in FY14. With the softening of interest rates, housing credit, the key segment in retail loans, is expected to grow at a higher pace.

3.0.Policy and Practice

The relationship between policy and practice in the context of credit to women enterprises is a rather complex area. The evidences available from documentary and field level sources indicate that, it is not lack of policy per se, that explains the situation to its fullest extent. While policies are in place, two types of constraints often bar their implementation: 1) Gender policies of the government of India are not fully felt sincere to the banking system of the country; 2) Besides, the implementing agencies often do not have the clarity of thought and sense of direction, so that the monitoring system remain weak. While these are the prima facie observations, one need to examine this in the concrete context of the Central Bank's policy pronouncements, and how they get actually translated in the field.

3.1.Role of the Central Bank

Redefining of the gender policies by the individual public sector banks still remains at the conceptual stage. The Reserve Bank of India stipulates setting up of Women's Cells at the head offices and regional offices of public sector banks, meant for coordinated gender -specific initiatives. While some of these banks have set up Women's Cells in their head offices, they remain largely as an exception, rather than the rule. From the regional offices, such facilities are rarely reported.

The Central Bank of the country has announced a proactive approach by which loan proposals and procedures relating to such proposals in the case of women are made simple. However, there are no evidences at the field level, that the loan proposals and procedure there to remain simple and different in the case of proposals from women. In the case of centralized processing also, such gender- specific approach is not reported to be practiced.

Gender sensitivity in lending should start from a proactive mind of the branch manager. Our field evidences indicates that such an approach is rather rare.

Publicity campaigns are not rare with public sector banks. However, both in the press and the electronic media, women -specific advertisements are too rare to be found.

Entrepreneurship Development Programs for women was a priority area for public sector banks in the 1980's and 1990's. The focus has subsequently waned up. As on today, only Canara Bank continues with its institutional initiatives relating to women entrepreneurship development. Moreover, even the available programs, and the training modules behind them, have become outdated.

Specialized women branches have been set up by some banks. But they are more publicity outfits, rather than functional entities.

Capacity buildings of bank officials has undergone major changes during the past few decades. However, such initiatives have taken place largely in the context of technology diffusion. While financial inclusion, and the use of technology for enhancing financial inclusion, has been a priority, the concerns of the major excluded sections, such as that of women, have not been built into the agenda of financial inclusion. Though the RBI guidelines focus on motivating the bank staff through effective strategies, such strategies are not built into the training models of the National Institute of Bank Management, Pune, or of the training outfits of the individual banks.

On lines of the RBI directives , gender based data has been built into the MIS of banks. But beyond data, the insights and findings are not found to be taken back to the level of strategy changes .It is simply data collection for its own purpose.

The RBI Guidelines also emphasize on greater interaction among NABARD, SIDBI and the banks. But our field results indicate more contradictions than cooperation. Of late, the Bharatiya Mahila Bank and the Mudra Bank have come as new institutional additions, but there are no evidences of a significant change in banking culture.

The RBI focus on self help groups, is probably the only recommendation that has been taken up by the public sector banks. However, more than being a social agenda, the banks consider it as matter of convenience. Dealing with a number of women under a single umbrella, is easier than dealing with a large number of micro enterprises.

As mentioned elsewhere, the national policy on gender budgeting sets the tone and tenor of public programs relating to gender in the country. On lines of this national priority, the Reserve Bank of India also has issued guidelines that regulate the behavior of banks in the country in favor of gender- sensitive programs and schemes , as also a gender balance in their operations. While the individual banks have their own schemes targeting women, the overall policies of banks are streamlined and monitored under the deliberations of the State Level Banker's Committee (SLBC). The SLBC is a statutory body involving financial institutions, public promotional agencies and government departments. While the periodic deliberations of this Committee focus on the State level developmental priorities, as also the national priorities, the official papers brought out by the Committee, in general, reflects the public concerns, and the response to such concerns by the public authorities, including the banks. An attempt was made to thoroughly review the Agenda Papers and Minutes of the SLBC for the States of Tamil Nadu and Kerala . The major findings emerging from this exercise, is as follows:

1) The discussion in the SLBC meetings, truly reflects the policy concerns of the State governments.
2) Unlike in the past , there has been an enhanced convergence in the policy perspective of the State government and of the banks
3) The above apparent convergence often results in adequate discussion of issues. Gender is a good