

Financial Funds for Women Entrepreneurs in India: A Study on Availability of Bank Loans in MSME Sector

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Abstract – In India, the micro, small and medium enterprise (MSME) sector accounts for a major share of industrial production and exports and is considered to generate high employment growth rates. The sector employs around 70 million people and contributes 15% of India's GDP. A critical role is played by women MSMEs in India. They together generate employment to over 8 million people, with a contribution of 3.09% of industrial output. Yet only one third of early stage entrepreneurs in India are women. Women entrepreneurs face many barriers in setting up and scaling the business – from access to education and training, cultural and legal barriers to major challenge of inadequacy of capital for growth of business. India is rated as third highest in gender gap in entrepreneurship globally. Women's access to capital is hindered by lack of collateral, credit history and inadequate financial literacy, besides social and cultural biases. The objective of this study is to understand the availability of credit to women owned MSMEs in the country. The study also seeks to draw out the issues and suggests measures to accessing credit. This research paper concludes that the present scenario demands more sincere and significant efforts in the implementation of multiple women entrepreneurship promotion policies and schemes that have been introduced in India. The benefits shall largely escape an individual women entrepreneur till the time they are not taken to the grass root level.

Key Words – Women Entrepreneurs, Entrepreneurship Development, Economic Growth, MSMEs, Finance.

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METHODOLOGY

The study has been based upon secondary data collected from various books, public and private publications, impact reports of relevant studies, census reports, government reports and an analytical review of literature available in hardcopy and online.

INTRODUCTION

“Empowering women is a prerequisite for creating a good nation. When women are empowered, society with stability is assured”— These are the words of **APJ Abdul Kalam**, who had envisaged, that an empowered woman would in a greater way assist the nation to surge ahead. Empowerment to a woman comes through employment, which gives economic independence and status to a woman.

In developing countries like India, women are being perceived as the major source for growth, prosperity and welfare. The educated women are no longer confined to the four walls of the house. They have shown the courage to break the shackles of a patriarchal society, the social customs, caste

restrictions, culture restraints and norms and have barged into the male bastion of occupation and business avenues. Many Indian women have attained prominent or leadership positions, in various domains which were considered to be male oriented, such as entrepreneurs, industrialists, civil servants, police officers, airline pilots, scientists, engineers.

The term **Entrepreneur** has been derived from the French word 'entreprendre', which means to undertake. An Entrepreneur can be defined as, “a person who combines capital and labour and other factors for the purpose of production, taking on financial risks in the hope of profit”. Hence, without discriminating, it can be stated that a **woman entrepreneur** is, “any woman who organizes and manages any enterprise, especially a business with considerable initiative and risk”.

This term was largely reserved for men, though women in the 18th century owned and ran certain businesses like taverns, brothels and retail shops, these businesses were considered to be shameful for women. It was only on the turn of 20th century, with the onset of feminism, that society started to

accept women as business persons. During WWII many women entered the workforce, as a patriotic duty, filling jobs that men had left behind to serve the military.

Micro, Small and Medium Enterprises (MSMEs) are defined under the MSMED Act 2006, as manufacturing units having investment below 25 lakh termed as Micro, those between 25 lakh to 5 crore as Small and 5 crore to 10 crore as Medium. Similarly, for Service units, corresponding investment thresholds were upto 10 lakh Micro, between 10 lakh to 2 crore Small and between 2 crore to 5 crore Medium. (Table 1)

Table 1. Definition of micro, small and medium enterprises based on investment

Type	Manufacturing (Investment in plant and machinery) Indian rupees million (₹ thousand)	Service (Investment in equipment) Indian rupees million (₹ thousand)
Micro	Up to 2.5 (Up to 45.5)	Up to 1.0 (Up to 18.2)
Small	2.5 – 50.0 (45.5 – 909.1)	1.0 – 20.0 (18.2 – 363.6)
Medium	50.0 – 100.0 (909.1 – 1,818.2)	20.0 – 50.0 (363.6 – 909.1)

Women Entrepreneurship has been recognised as an important source of employment and economic growth. Women entrepreneurs not only help create jobs for themselves and others but also provide different solutions to management, organisation and business problems. There has been a phenomenal rise in the number of women entrepreneurs the world over, including India. According to a study in 2012, there was an approximate 126 million women either starting up or running there on businesses in various economies worldwide. However, they still represent a minority of all entrepreneurs and encompass approximately 1/3 of all entrepreneurs globally. Credit limitations have been cited as the reason by 43% women in comparison to 26% men for business discontinuance, in Figure 1. (GEM, 2014), as per study supported by Athena Infonomics India Private Limited. India is rated as third highest in gender gap in entrepreneurship globally.

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



(Source: Athena Infonomics India private Limited.)

As per, Assistant Secretary-General of UN Women, Lakshmi Puri, "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." Women entrepreneurs make a significant contribution to the Indian economy. The women entrepreneurs are one of the most vital parts of the MSME sector in India. Unfortunately, even after representing 48% of workforce in our country

(Census 2011), women have considerably less exposure to technical and managerial education, job and economic independence. Different studies carried out by several researchers show that women entrepreneurs are not trusted by the credit sanctioning authorities as entrepreneurship is considered as a 'man-thing' (Lahiri, Rajib 2014).

As per a report published by International Finance Corporation, World Bank Group in 2017, on Micro, Small and Medium Enterprise finance: Improving Access to Finance for Women-Owned Business in India, there are nearly 3 million, micro, small and medium enterprises with full or partial female ownership. These make 10% of the total MSMEs in India. They contribute 3.09% of industrial output and employ over 8 million people. 78% of women run enterprises belong to services sector and 98% are micro enterprises in size.

The data exhibited in entire section comprising of Tables 1, 2, 3, 4, 5 and 6 have been sourced from the above mentioned report published by International Finance Corporation, World Bank Group. It shows the categorization of women owned enterprises as per their size, geographical distribution, sources of finance and financial requirements.

Table 2. MSMEs' access to Finance[6]

Funding source	Share (percent)
Formal financial sources	21.50
Self-equity	3.30
Informal sources	75.00

Table 3. Classification of Women-owned MSMEs

Category	Registered	Unregistered	Total	Total versus all women-owned businesses (percent)	Total versus all MSMEs (percent)
Micro	274,105	2,455,318	2,729,423	97.62	9.40
Small	48,722	36,434	85,156	3.37	0.23
Medium	276	-	276	0.01	0.01
Total	313,003	2,491,752	2,804,755	100.00	10.25

Table 4. Geographical Distribution of Women-owned MSMEs

Prevalence of women-owned businesses	Women share (percent)	Number of states/union territories (N)	States/union territories	Combined share (percent)
High	>10.00	4	Kerala, Karnataka, Tamil Nadu, West Bengal	51.9
Medium	5.00-10.00	2	Andhra Pradesh, Madhya Pradesh	11.5
Low	2.00-4.99	7	Rajasthan, Maharashtra, Punjab, Uttar Pradesh, Bihar, Gujarat, Odisha	26.7
Very Low	<1.99	28	Rest of India	9.9

Table 5. Access to Finance[9] of Women-owned Enterprises

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

Table 6. Demand for financing from women-owned MSMEs

Type	Formal Sector		Informal Sector	
	Number of units (in thousands)	Financing demand Indian rupees trillion (\$ billion)	Number of units (in thousands)	Financing demand Indian rupees trillion (\$ billion)
Micro	274.06	0.19 (3.89)	2,695.32	1.86 (33.86)
Small	47.53	3.91 (71.16)	50.43	2.50 (45.54)
Medium	0.28	0.21 (3.75)	0.00	0.00 (0.00)
Total	321.86	4.31 (78.40)	2,685.75	4.37 (79.40)

In order to facilitate a greater financial inclusion, a number of measures have been initiated by Government of India, to provide financial assistance to women and marginalised groups. A significant measure in this direction is the RBI's 14 Action Plan (2000) for public sector banks. The plan targets at creating gender sensitization of banks by providing guidelines, setting up of women cells, specialized branches for women, training programs etc. The Action plan mandates that public sector banks advance 5% of Adjusted Net Bank Credit (ANBC) to women, and is applicable across the sectors.

As per a study supported by Athena Infonomics India Private Limited, an analysis of lending patterns of the banks' highlights that almost all public sector banks earmarked their 5% of ANBC, but indicate difficulty in meeting this target due to lack of identification and target of genuine women-led enterprises.

The data obtained from a study on efficiency of bank loans for women entrepreneurs, as shown in Figure 2, reveals that repayment patterns of women portray reduction in NPAs (Non-Performing Assets) on loans in this segment from 6.5% in 2005 to 3.83% in 2014. Women are considered to be not risk takers, they are emotionally attached to their businesses and due to this the diversion of funds is low and repayment is higher. However, despite their good payment records, the lending to women has been low at 7.71% of ANBC.

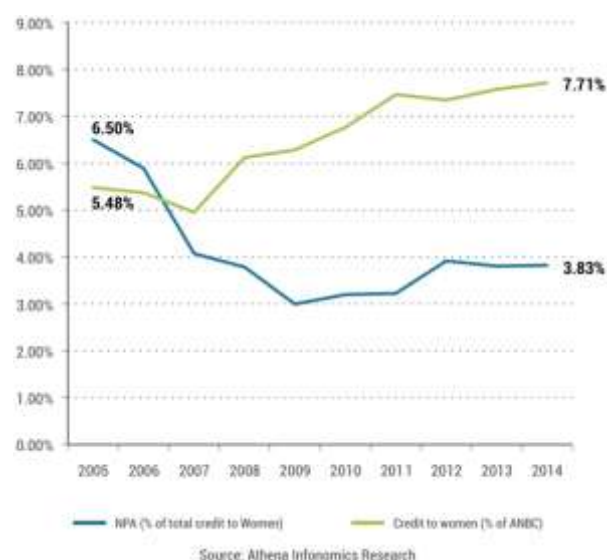


Figure 2: Proportion of Credit to Women and NPAs

Though overall figures of ANBC to women showed stagnation, improvement was observed in few banks that managed to lend more than double the stipulated amount. The information exhibited in Figure 3, sourced from study supported by Athena Infonomics India Private Limited, shows that the top performers in terms of net bank credit to women as of 2014, were, Canara Bank, Indian Overseas Bank, Indian Bank, Andhra Bank and Bank of India, whereas Bank of Baroda, Punjab & Sind Bank exhibited lower lending to women.

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

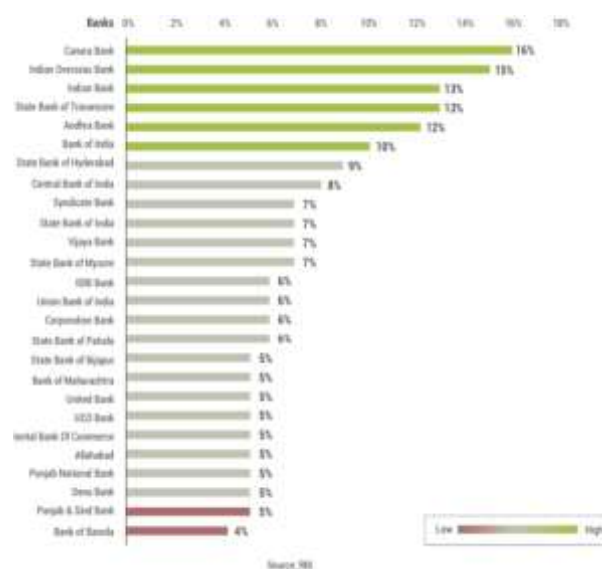


Figure 3: Proportion of Leading to Women in 2014 – Bank Wise

CREDIT SCHEMES FOR WOMEN ENTREPRENEURSHIP IN INDIA:

To cater to the needs of potential women entrepreneurs, and to assist needy women to make them economically independent, various loan schemes and Entrepreneurship Development Programmes have been introduced by Ministry of Micro, Small and Medium Enterprises, MSME development organisations, State Small Industries Dev. Corp., the Nationalised Banks and even NGOs. Some of the special schemes for women entrepreneur, implemented by the Ministry of Micro Small and Medium Enterprises and other government bodies and allied institutions are as follows:

1. Trade Related Entrepreneurship Assistance and Development Scheme (TREAD)

This scheme is introduced by Ministry of Micro, Small and Medium Enterprises and it envisages empowering women, through subsidy and trading related training, information and counselling extension activities related to trades, products and services. The three major components of the scheme are:

- i. The government provides grants up to 30% of the total project cost, subject to maximum limit of 30 lakhs, through NGOs for capacity building and for undertaking self-employment ventures by women in non-farm activities. The remaining 70% of the project cost is financed by the appraising lending agency.
- ii. The Government also gives a grant of up to one Lakh rupees per programme to training institutions/NGOs for imparting training to women entrepreneurs.
- iii. Also, need based grants upto 5 Lakhs may also be provided to national level EDIs and other reputed institutions for undertaking research studies, field studies, evaluation studies, designing of training modules etc.

2. Mahila Coir Yojna

MCY subsidy scheme has been implemented by the Coir Board, M/O MSME in 1994. It is the first Women oriented self-employment programme in the coir industry, which employs more than seven lakh workers mostly women, for rural women artisans in regions producing coir fibre. The scheme envisages distribution of motorised ratts for spinning coir fibre into yarn; equipments for weaving, spinning and production and value added products, to women artisans after imparting training for two months. One artisan per household is eligible to receive assistance under the scheme. A stipend of 750 p.m. is paid to the trainee.

Coir Board provides motorised ratts/motorized traditional rats at 75% cost subsidy subject to a maximum ceiling of 7,500 and 3,200 respectively, provided the other 25% is raised by the beneficiary.

3. Micro & Small Enterprises Cluster Development Programme

The Ministry of Micro, Small and Medium Enterprises (MSME), Government of India has adopted the cluster development approach as a key strategy for enhancing the productivity and competitiveness, as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. The programme envisages diagnostic study of identified clusters of traditional skill based MSEs to identify appropriate technologies and their providers. It provides assistance for capacity building, common facilities, marketing etc. and the delivery, assimilation and diffusion of the identified technology from its producers to the recipient user/cluster of small enterprises.

The Government of India's assistance is as follows:

- i) Diagnostic Study – Maximum cost 2.50 lakhs
- ii) Soft Interventions – Maximum cost of project is 5 lakhs with GoI contribution being 90% for clusters with more than 50% women.
- iii) Hard Interventions – Maximum cost of project is 5 Crores with GoI contribution being 90% for clusters with more than 50% women.
- iv) Infrastructure Development in the new/existing industrial areas – Maximum cost of project is 10 Crores with GoI contribution being 80% for clusters with more than 50% women.

4. Training and Employment Programme for Women (STEP)

The Ministry of Women and Child Development has been administering 'Support to Training and Employment Programme for Women (STEP) Scheme' since 1986-87 as a 'Central Sector Scheme'. The STEP Scheme aims to provide skills that give employability to women and to provide competencies and skill that enable women to become self-employed/entrepreneurs. The Scheme is intended to benefit women who are in the age group of 16 years and above across the country. The grant under the Scheme is given to an institution/ organisation including NGOs directly and not the States/ UTs. The assistance under STEP Scheme will be available in any sector for imparting skills related to employability and

entrepreneurship, including but not limited to the Agriculture, Horticulture, Food Processing, Handlooms, Tailoring, Stitching, Embroidery, Zari etc, Handicrafts, Computer & IT enable services along with soft skills and skills for the work place such as spoken English, Gems & Jewellery, Travel & Tourism, Hospitality. During the year 2015-16, the total amount given to approximately 6000 women is Rs. 7 crores approximately.

5. **Bhartiya Mahila Bank (BMB)**

The bank encourages women entrepreneurs through financial support to women who intend to start a new venture. The Bank offers a collateral free loan of up to 1,00,00,000, covered under Credit Guarantee Trust for Micro and Small enterprises (CGTMSE). Several women centric, innovative loan products offered by BMB are:

- i) **Annapurana Scheme** – It provides a term loan for setting up catering unit for selling tiffin/lunch boxes, with a maximum amount upto 50,000, repayable in 3 years.
- ii) **Parvarish Scheme** – It provides a term loan for setting up a child care centre and payback period is of 5 years.
- iii) **Shringaar Scheme** – It provides a term loan for setting up a beauty parlour and has a tie up with Lakme, Naturals and Cavin Kare. The loan is repayable in 7 years.

RECOMMENDATIONS

In view of the limited financing of women-owned businesses, the financial and government institutions need to intervene at several levels to build up this sector. The following measures are suggested:

- Understanding of the financial needs and support services of women entrepreneurs. This requires market research and documentation to begin the product development process.
- Offer tailored products and services to cater to the financial needs, along with associated sourcing and marketing strategies.
- Financial institutions need to streamline their policies, procedures and systems to become more accessible to women entrepreneurs.
- Credit approval process should be simplified.
- Collaborate with NGOs, self-help groups and microfinance institutions to have a better understanding of the client's cash flow cycles and repayment capacities.

- Ease out stringent collateral requirements. A credit guarantee scheme should be initiated for finance from formal financial institutions in absence of collateral.
- Encourage and promote a friendlier environment for women customers. Hire and train more female relationship managers to target women run businesses.
- Organise events like workshops, seminars etc. to create awareness amongst women of credit products and services.
- Initiate training programs to build business and financial management skills in women entrepreneurs.
- Promote and support with relevant laws for equal rights to property and address issues with regard to inheritance and ownership of property of women.

CONCLUSION

The Indian population comprises of nearly 48.5% of women. There has been a considerable rise in the number of women participation in the field of entrepreneurship. Various laws and equal rights to opportunity, education and employment have improved the plight of Indian women entrepreneurs. The women entrepreneurship segment presents a potential business opportunity for various stakeholders. Financial institutions need to proactively and profitably engage with women entrepreneurs as clients to bridge funding gaps. However, more data needs to be generated to facilitate segmental focus so as to overcome lack of awareness. But unfortunately, the government sponsored development activities, various schemes and modules have had a limited outreach and benefited only a small section of women i.e. the urban middle class women.

The benefits of women centric policies and schemes for entrepreneurship growth and development will remain elusive to the women entrepreneurs at large, unless and until they are not taken to the grass root level. Effective steps are required to provide entrepreneurial awareness and orientation.

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