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Does credit availability differ for women and male micro-entrepreneurs?: A brief literature review in the Indian context

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Abstract

In many developing countries, for example, India, the male is still dominating in entrepreneurship. Female entrepreneurs tend to be more concentrated in the micro-enterprise, mostly home-based. The paper critically examines whether there is discrimination in credit availability based on gender. It identifies the various socio-cultural factors like gender bias and gender role stereotypes that act as barriers to women's entrepreneurial journeys. It tries to determine why a significant proportion of female home-based entrepreneurs still rely on informal credit sources.

Keywords: women micro-entrepreneur, credit, microfinance, Government Schemes, gender bias

Introduction

In many developing countries, for example, India, the male is still dominating in entrepreneurship. Female entrepreneurs tend to be more concentrated in the micro-enterprise, mostly home-based. Lack of finance becomes the main hurdle for such entrepreneurs. According to Goldman Sachs Global Investment Research Report (2004) ^[1], women-led micro-enterprise face more than the double loan rejection than a male-owned micro-enterprise to get a fund to start their business. They majorly depend on the informal source of credit like family members and money lenders, restricting their business growth and survival. Women often face many hurdles to access credit, such as lack of adequate collateral. These formal institutions are unwilling to accept household assets as collateral to provide them credit. Sometimes, loan officers often have negative perceptions about women entrepreneurs due to their creditworthiness and inadequate knowledge about a profitable business and financial plan, which raises concerns about their business viability. Home-based entrepreneurs do not have experience and enough exposure in paper related work of loan procedure. Lack of exposure often leads to higher transaction costs to access the credit from the formal source like banks.

They face several challenges in availing credit, such as difficulties raising the initial capital to start a new business. In many developing countries, rural women-led home-based entrepreneurs own lower financial assets than men they own. The question arises why there is a prevalence of negative attitudes from financial institutions such as banks and other lending institutions for women in availing credit. The literature could give a few possible reasons. They face gender role stereotyping and legal discrimination. The traditional gender role makes financial institutions often reluctant to view women's role as an entrepreneur. Traditionally, they are obliged to do household domestic chores and childrearing. They often get engaged in less known services like care,

making home product services, and personal care. Lack of time constraint can also be seen as a barrier that ceases them from seeking support from a financial institution, their advice, and their various financial products, specially designed for women micro-entrepreneurs.

Access to formal credit is found to be the major hurdle for women entrepreneurs to grow and survive their business. Talking about the challenges of women entrepreneurs in the Indian context, Charumathi B (1998) ^[4] has found historically, financial institutions often keep doubtful opinion and perception about women entrepreneurship than men. Pal (1997) ^[5] has also mentioned that the lack of affordable credit is the primary constraint behind their growth and survival of women micro-enterprise. They face many problems to open their bank account, which could act as security for a future loan to expand the business. In his primary survey data, Kaur and Bawa (1992) ^[11] have found a large dependence of informal sources of credit for women micro-entrepreneurs. Fifty-four percent of the women in their sample rely on their spouse's savings and financial assistance to start a new business, whereas 23 percent took financial support from their parents; 13 percent relied on family and friends.

In comparison, only 10 percent have dependent on an authorized formal source like financial institutions, banks. D.D. Arora and Subhash Chandra (2015) ^[6] try to look at the financial constraint for women entrepreneurs, especially at the start-up stage and operating stage based on primary survey data. The study is based on a survey of 189 enterprises from urban and rural areas of Haryana State. It specifies the women's issues in availing credit. 39 percent of women have raised the issues in obtaining start-up capital to start the business. The main reason was found to be a lack of data about financial plans in banks. Thus they are reluctant to provide credit. A small portion of them only avails credit form formal sources -government schemes and plans due to lack of awareness about the schemes.

In India, there are two main streams: the commercial banking system, including commercial banks and regional rural banks, and the second one, the cooperative credit system, which offers subsidized credit. (Shah, 2013) ^[17]. The primary formal source of credit has always been banks, but most micro-entrepreneurs rely on an informal credit source. Microfinance has been brought to give special attention to the credit needs of rural micro-entrepreneurs. The Indian government has always been focusing the credit needs for poorer sections of the society in its policies. In the 1960s, cooperative societies were set up but failed to meet the credit needs. Further, banks got nationalized in 1969; one of the primary purposes was to meet the poor's credit requirement. One of the main objectives of the nationalization of Indian banks in 1969 and 1980 was to improve the flow of credit into the rural household, mostly excluded ones.

Different Government schemes such as in the sixth Five-year plan, the Integrated Rural Development Program (IRDP), to meet the credit needs of rural sections via the banking channel. Under this IRDP plan, banks had relaxed several terms and requirements in sanctioning loans such as eligibility criteria, rate of interest, collateral security, and loan guarantees. Such relaxed norms have questioned the viability of loans as the recovery of the loan was feeble. (Kurian *et al.*, 1987) ^[12]. The Formation of Self-help group, this micro-credit initiative, requires the formation of 10 to 20 people. Members of the group come together to save and rotate loans amongst members in forming a group with regulating finance and working sustainably. The very reason to give them credit in a group is that the self-help group members exert pressure to repay the loan on time. Peer pressure can act as a source of collateral.

RBI and NABARD launched various schemes to provide credit to MSMEs. NABARD has supported home-based entrepreneurs through various credit schemes and support programs such as Self-Help Group – Bank Linkage programs, Swarojgar Credit Card (SCC). The SHG-Bank Linkage program was initiated in 1992 to give poor and marginalized sections of the society access to credit through the banking channel. It builds self-confidence in home-based and micro-entrepreneur with the concept of pooling micro saving, enabling them to lend against the social collateral. Swarojgar Credit Card (SCC) Scheme was introduced in 2003 to facilitate credit requirements for self-employed and rural micro-entrepreneurs and covers SHGs. It provides a composite loan of Rs. 25,000 per borrower. The schemes also provide the group insurance scheme; both borrowers and lending institutes will equally bear the coverage. Since the female home base micro-enterprise is very prone to risk, this insurance coverage scheme might not benefit them.

Another scheme by NABARD is Soft Loan Assistance for Margin Money, which gives financial support to entrepreneurs who are already skilled. It also supports those lacking monetary resources to meet the margin requirement under the NABARD's refinance scheme. This scheme is discriminatory to women entrepreneurs as the scheme only favors skilled and trained entrepreneurs. However, most women micro-entrepreneurs are still unskilled and require training services but need financial assistance simultaneously. Another obstacle

for women entrepreneurs is the lack of time and competing demand for business growth. Traditionally, they are obliged to do household domestic chores and childrearing. They face time constraints as they do not have enough time to enroll themselves and attend skill development training programs to grow their existing business. This time constraint can often be seen as a significant barrier to seek support from financial institutions for advice and information on credit or to seek out and gain financial support under such schemes.

The Rural Innovation Fund (RIF) is also designed by NABARD exclusively for the microfinance sector to create employment opportunities in the rural Areas. This fund is unique in the sense it gives support to rural innovation. However, after 2014, NABARD has ceased this fund. NABARD also provides grants as a source of financial assistance to rural artisans who want to set up a home-based business, get the market platform to sell their products to get by rural Haats and Rural Marts.

There is some target based scheme specially designed for the MSMEs sector. A Certified Credit Counsellors (CCC) scheme helps the entrepreneurs prepare financial plans and project reports more professionally. This scheme is helpful for banks to make informed credit decisions. It uses digital platforms to give them access to credit such as Udyami Mitra' and 'psb loan in 59 minutes'. MSMEs also face the problem of delayed payment. A micro-entrepreneur can go to a digital platform, named Trade Receivables Discounting System (TReDS) platforms to address their grievance against delayed payment. According to RBI's guideline, it is now mandatory for all companies to have more than ₹50 crore turnover to register under TReDS. TReDS was set up to facilitate Electronic Bill Factoring Exchanges, which could accept and auction MSME bills electronically to realize receivables without delay. The crucial point is that women entrepreneurs remain unbenefited from this scheme due to poor connectivity and lack of technology. There is a dire need to resolve the connectivity issues to avail this credit scheme, especially for those women entrepreneurs living in rural parts of the country.

The Indian government has launched the scheme to avail credit to the micro and small enterprise sector without any collateral. The three institutions initiated the Trust, the Government of India, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), SIDBI, and MSMEs' ministry. The prominent role is to implement the schemes and provide a credit delivery facility to the new and existing Micro and Small Enterprises engaged in manufacturing or service activity. For micro-enterprises, the extent of the guarantee is 85% up to 5 lakh credit. It provides the credit facilities for both term loans and working capital facilities up to Rs.100 lakh per borrowing unit. It is unique because no collateral security or any guarantee from a third party is required to benefit the facility. However, it excludes Self Help Groups (SHGs) and Training Institutions. Women micro entrepreneurs are in a double disadvantaged position to get financial support for their business under this scheme.

Conclusion

Summing up, socio-cultural factors like gender bias and gender role stereotypes act as barriers to women's

entrepreneurial journeys. They still have to rely on informal sources to start their business and enterprise with little support from Government schemes and programs. There is a dire need to develop more tailored financial services and products with an efficient infrastructure that fulfills the credit need of women micro entrepreneurs. A female home-based entrepreneur faces a significant constraint, which is access to financial support, especially credit. They often face a lack of business networks and knowledge gaps considered as obstacles during their entrepreneurship journey. Fewer studies by Halabisky and David (2018)^[8] have shown that it is relatively more painless for a male home-based entrepreneur to access credit as they have more social connections, information, and contacts than females. Women often have lesser legal abilities than men in terms of access to credit. Finally, to run a business, one requires a strong legal ability to perform many different functions. According to Women, Business, and the Law (2018)^[20] data, married women are in a double disadvantageous position. The rules and regulations are different for married women in terms of property inheritance, traveling outside the home, obtaining a national Identity card, signing a contract, opening a bank account, and registering in any business. Globally, only 47 of 189 economies have laws prohibiting discrimination in access to credit based on gender.

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