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Financial Inclusion of Women in Business through Microenterprises

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Abstract

There is a significant gender gap in inheritance, and fewer women have the assets necessary to get a loan with collateral. A woman may not be able to visit a traditional lender because of cultural barriers such as the gender pay gap in the home, fear of physical harm, or a lack of transportation options. To ensure that all Indian citizens have access to basic financial services, the government of India introduced the Pradhan Mantri Jan Dhan Dhan Yojana (PMJDY) in 2014. The program's goal is to provide those who are "financially excluded" access to services such savings accounts, loans depending on need, a remittances facilities, insurance, and retirement plans. Since then, more than 460 million bank accounts, 67% of which are in rural and semi-urban regions, and 56% of which are held by women, have been established, according to statistics from the Ministry of Finance. Yet, in India, approximately 20% of women still do not have their own bank account. Those who do have bank accounts often don't utilize them consistently and still can't get their hands on the savings and credit they need.

"financial inclusión is the procedure of guaranteeing access to banking services and promptly providing sufficient credit when it is needed by disadvantaged groups including such backward classes and reduced groups at an affordable price," the Reserve Bank of India said in its National Strategy Financial Inclusion (2019-2024). While financial inclusion is seen as a vital driver of economic development and poverty reduction, it is important that these gaps be closed. It guarantees that everyone, wherever can get competent, inexpensive, and accountable financial services.

Key Words: inequality, inheritance, collateral, constraints, unpaid household, mobility, restricts

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Introduction

Being a facilitator for no less than eight of the seventeen goals for sustainable development, financial inclusion is often seen as a crucial gauge of progress (SDGs). Health, educational, and employment results all get direct boosts when people have access to banking, loans, and insurance. In turn, this helps accomplish societal objectives including ending poverty, expanding economic opportunity, and decreasing inequality.

The need of studying the current situation of women-owned businesses in India has become more apparent in light of the increased acknowledgement of women entrepreneurs' contribution to economic progress. In order to develop country-specific policies to increase the availability of capital for MSEs owned by women, it is necessary to conduct a diagnostics of the supply and demand of capital at the national level. This report seeks to assess the financing gap by identifying the key qualities of ladies businesses, one‘s need for both financial and non-financial offerings, their adoption of financial products, and the obstacles to their access. It does so through a combination of secondary prediction and primary data collection. The concepts of financial inclusion seek to provide women with not only a bank account, but also the means to save money, get credit, send and receive transactions, and protect themselves from financial loss.

The main cause is the bias that banks and other financial institutions have towards businesses run by women. This perspective originated from the fact that fewer women than men work in India's banking and financial sectors. Women make up just 17% of workers in India's scheduled commercial banks, which affects how they see businesses run by women (perhaps because of the societal biases). Micro-enterprises (97.5% of ladies owned MSMEs in India are micro-enterprises and operate in the informal sector) constitute an additional complication since financial institutions see them as high-risk.

Patriarchal Mindset Impact on Financial Inclusion for Women

The patriarchal nature of Indian culture means that female household members have little rights to either immovable or moveable property. The persistent disparity in wealth between the sexes perpetuates economic exclusion (see diagram). Women's access to money is limited, and they are more likely to rely on male family members to get loans from financial institutions, due to the lack of ownership to property. Thus far, financial institutions have ignored the link between the group's lack of property rights and its limited access to credit.

The failure to produce and advertise goods and services specifically for the market of women-owned firms is another consequence of the widespread fear that women do not have equal property rights. Public sector banks like Canara Bank, SBI, SIDBI, and Punjab National Bank of India are among the few that cater to the requirements of women-owned businesses with specialized products. Despite the market's obvious promise, most banks and other types of financial institutions ignore it. This is particularly true of those in the private sector. However, even financial institutions that provide individualized solutions place little value on

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tailored marketing and communication, which in turn negatively impacts product adoption and performance.

In addition, banks don't do nearly enough to streamline their procedures or improve communication with business owners, especially female business owners and those in the micro, small, and medium enterprise sector. Due to confusion about necessary paperwork, customers end up making unnecessary journeys to the bank and eventually becoming disenchanted. The requirement for smaller ticket size loans by women business owners is another factor contributing to the indifference of financial institutions. Costs associated with managing and servicing small loans are disproportionately expensive when weighed against income projections. Moreover, financial institutions incur the same cost regardless of loan size since the credit risk evaluation procedure, which is often rather complex, is the same for both small and big loans. Thus, banks should avoid investing in tiny loans because of the poor return on investment they would get.

Women – Owned Business and Access to Finance

These reasons are laid forth in the paper on "Improving access to credit for women-owned enterprises in India," along with suggestions for resolving the problem. Banks and other financial institutions may do a number of things to make it easier for women-owned companies to get loans.

(i) Make sure the financial requirements of women business owners are being met by creating and implementing specialized goods and services.

(ii) Make improvements to regulations, processes, and systems so that female entrepreneurs may participate fully.

(iii) Reduce the need for customers to visit branches by streamlining the approval process.

(iv) Make loan appraisals more efficient by standardizing the process.

(v) Explore the possibility for banking services as well as other cost-effective & innovative delivery methods while also adopting focused sourcing/marketing techniques to increase product awareness.

(vi) The locations of NGOs, microfinance banks, and self-help groups, as well as their customers' working capital cycles and repayment capacity, are typically better understood via collaboration. Transaction costs and risk might both be reduced by collaboration.

(vii) Including distribution platforms like phone-a-financial-product hotlines, internet banking, and mobile banking.

(viii) (viii) Women shouldn't have to ask their fathers or brothers for money anymore. If a woman is applying for a loan from a public sector bank, her spouse or, if she is single, her father, must cosign the paperwork. Banks and other financial institutions need to change their procedures so that women business owners may sign loan applications and other necessary paperwork.

(ix) Consider using non-traditional collateral like postdated cheques, personal property, or a stake in your firm.

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There is a high potential market of 3 million enterprises waiting for banks that implement these recommendations!

The benefits of financial inclusion may be traced directly back to increased agency. Credit availability is a significant determinant of economic possibility and performance. Strong and equitable development may be fostered via financial inclusion by giving people the tools they need to create their own economic possibilities.

(i) I'd want to discuss three elements of financial inclusion today:
(ii) To begin, let's discuss the significance of women's financial inclusion.
(iii) Second, what can be done to encourage financial inclusion, both publicly and privately;
(iv) Connections between wide financial participation and health.

Significance of Financial Inclusion for Poverty Alleviation

Worldwide, the distribution of wealth is very unequal. The wealth of the world's lowest half, or nearly 3.5 billion people, is controlled by the 85 wealthiest "people" in the world. It's common for educational, health care, and economic opportunities to be unequally distributed. The problem of inequality has far-reaching economic and moral implications. Growth is often slower and less stable in countries where inequality is strong. When people aren't treated fairly, it limits their opportunities to grow and make a positive impact. One thing is obvious, whether via introspection or data: growth has to be more accessible, and for this, finance needs to be more inclusive.

Providing low-income people with access to fundamental financial services like payments, savings, and insurance might have far-reaching effects. Families can better plan their spending and put more money toward long-term goals like better health and education if they have easier access to credit. Consumers have the option of purchasing insurance in the event anything negative happens, protecting them from further financial hardship.

Having easier access to capital may help businesses, particularly startups, invest in more productive technology. It may also help businesses grow, both in terms of personnel expansion and overall maturity.

Gender Dimension of Financial Inclusion

Due to legal restrictions, women often have less financial security than males. Women sometimes have inadequate collateral to acquire loans due to low incomes and labor force participation.

It's also possible that women might be at a disadvantage in workplaces where male loan officers predominate. Women may face societal and educational barriers that prevent them from using the kinds of financial services that would greatly enhance their standard of living.

Women face additional obstacles in gaining access to financial resources due to their lower levels of education and management experience compared to males. The advantages that may accrue if these women were permitted to reach their full potential are lost on them, their families, or society as a whole.

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These roadblocks must be tackled head-on. Financial inclusion is an essential component of inclusive development, which may help reduce the gender and disparity gap by lowering poverty and improving employment opportunities.

Financial Inclusion as a Collective Responsibility

Both the public and private sectors have a role to play in advancing financial inclusion. Both the private sector and the government may contribute to the goal of expanding access to financial services for all citizens. In providing informal assistance and monitoring, civil society plays a crucial role.

Access to banking services for poor and disadvantaged is often improved through private sector efforts with an emphasis on using technology and adaptation. I am certain that the presenters will shed light on this topic by sharing their personal insights and knowledge with us. One of the most promising ways to expand access to financial services is via technological innovation. It reduces the price of helping those on fixed incomes. It lowers the cost of providing financial services while still making them profitable for providers.

For example, mobile banking has the ability to greatly increase access to banking services. The proliferation of cell phones has surpassed that of banking networks in several places. It is run by a non-banking private telecoms company and is available all throughout the country. More than 75% of Kenyans now have access to some kind of financial service, the highest rate in all of Sub-Saharan Africa. Paraguay and Mexico both provide services similar to M-PESA, but within the framework of the traditional banking system. So, it is clear that governments may take use of mobile banking by distributing monetary aid via conventional bank accounts. Likewise, when demand for financial services grows, so do the corresponding goods and services. Banking correspondents, who employ a mix of card and mobile-based technology, help bring banking to previously unbanked people and places in nations such as Brazil, India, and Mexico, while in Chile, grocery chains are slowly but surely developing credit histories for their unbanked customers. They give out tiny amounts of shop credit at first, and then increase it depending on the customer's payment history. These repayment records may open doors to other credit opportunities. In conjunction with consumer protection measures and financial education aimed at avoiding excessive debt, this is a perfect example of financial empowerment in action. Nonetheless, government policies may and should supplement private sector actions.

Barriers to Financial Inclusion

Economic distortions contribute to the difficulties in expanding access to financial services. Borrowers are typically given temporary assistance via measures like interest rate subsidies and directed lending. But, in the long term, these actions may hurt competition and erode financial stability. Hence, the focus of public policy should be on making it easier for people to participate in the financial system. Locations where this is possible include:

First - Encouraging healthy competition: New and specialised financial products, especially those that take use of the potential

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of technology, are encouraged by the presence of healthy competition among suppliers. It also gives people greater agency since they may choose and choose the goods that work best for them. Increasing financial depth is another benefit of financial innovation beyond its role in promoting inclusivity.

Second - Creating an enabling regulatory environment: Establishing a responsible but not too burdensome regulatory framework for goods that might aid in financial inclusion is a significant obstacle. Exemptions from burdensome paperwork requirements and mandates that banks provide basic checking accounts are two policies that may be very useful.

Third - Strengthening financial infrastructure: Accurate information is crucial for expanding access to the financial system. Increasing lending to small and medium-sized businesses may be aided by policies that make it easier for banks to acquire information about borrowers, such as via credit data systems and legal registrations for moveable assets.

Financial Stability Through Instruments of Financial Inclusion

Many customers who were previously excluded form financial markets now have access to opportunities because to financial inclusion. Financial inclusion and credit growth pose a threat to financial stability if not handled properly. Lenders face more dangers when they finance unprofitable projects or unsuitable borrowers, while naive borrowers face greater dangers when they incur excessive debt as a result.

Overextending one's credit is risky business, and we're all aware of the perils of doing so. When there's too much of either, you can't see, as Octavio Paz put it. Hence, "Responsible" financial inclusion calls for a harmony between market opportunity and innovation and supply and demand side protections designed to avoid excesses. It entails assisting customers, particularly the most disadvantaged, to make appropriate use of access without incurring more debt. Having well-thought-out financial policies in place may help direct loan money where it will be most useful.

Conclusions

Our modern world is always expanding. Despite the increasing financial interdependence, more than a half of the world's population still lacks access to formal financial systems. Reaching out to them and giving them agency is crucial for both economic and moral reasons. A solution is financial inclusion. And it may go together with monetary security provided it is backed up by strong policy. Individuals and families, particularly women and the disadvantaged, benefit greatly from access to financial services, and nations as a whole benefit from robust financial infrastructures. The International Monetary Fund views financial inclusion as fundamental to both inclusive growth and sound financial development. Several nations in the area have benefited from our collaboration with the World Bank and other regional agencies to improve their financial systems. Both in the framework of bilateral projects and in the context of international networks like the G-20, we will continue to create and share best practices with our membership.

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Identifying paths that aid the shift from informal to formal business structures requires a thorough understanding of the drivers and goals of micro-entrepreneurs. Micro-entrepreneurs need to have their foundational financial knowledge and business acumen strengthened with a more comprehensive and advanced approach to the supply of financial products to micro-enterprises.

Companies that rely on micro-entrepreneurs in their supply chains should examine ways in which they might modify their operations to better meet the demands of these businesses, including those of their minimum work sizes, inventory needs, and cash flow.

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