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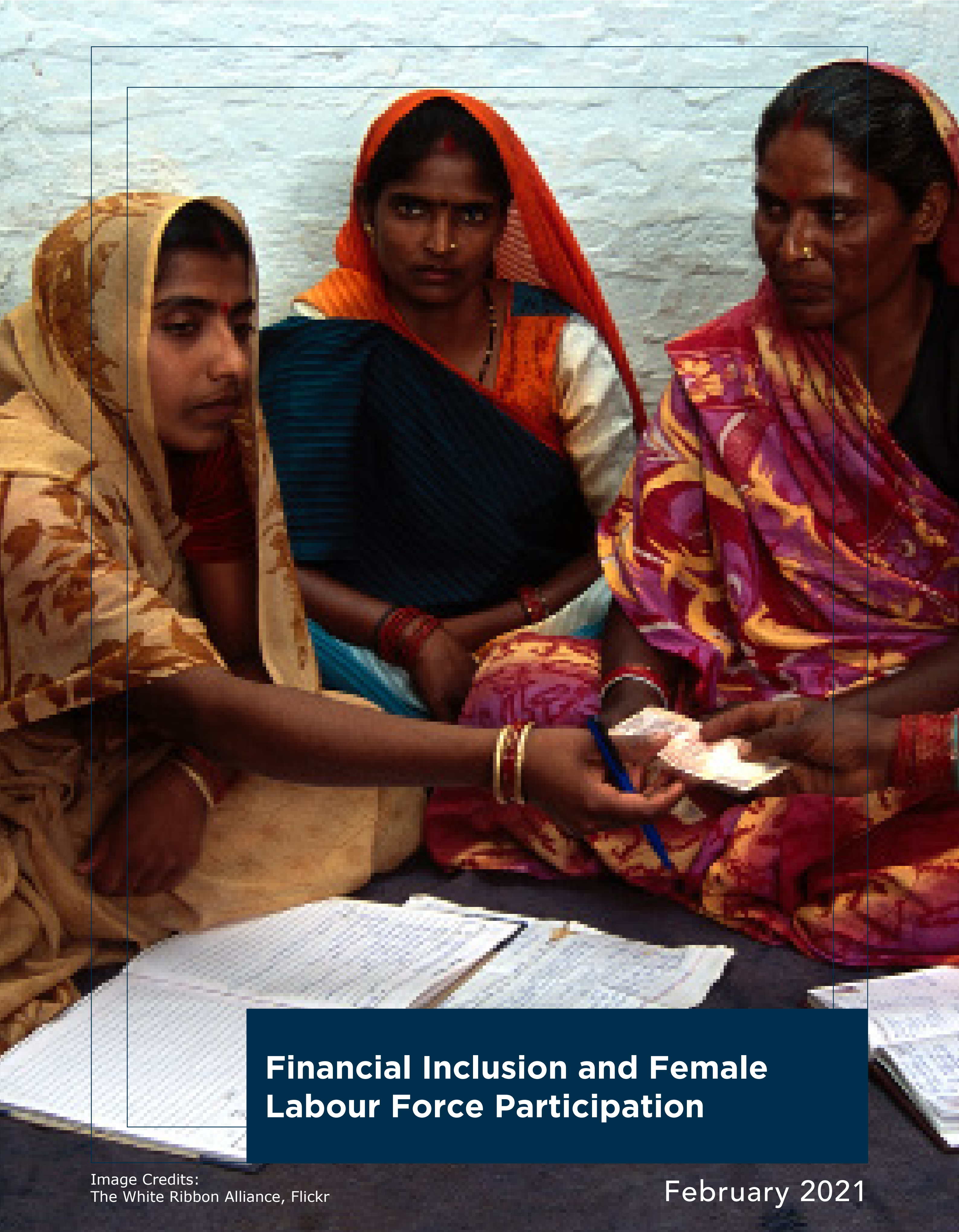

Financial Inclusion and Female Labour Force Participation

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Introduction

The rapid growth in India over the past decade has been coupled with a steady decline in female labour force participation. Despite rising GDPs, improvements in higher education attainment as well as fall in fertility rates, India's female labour force participation rate (LFPR) has continued to drop. This has been further aggravated by job stagnation and high unemployment rates in recent years which have impacted women disproportionately and may worsen due to the ongoing pandemic.

The change in female LFPR varies across states. Rural areas record a higher fall as compared to urban areas. However, during the pandemic, urban women have also become vulnerable to job and income losses, as most urban women work in informal sector jobs with limited social protection and low wages.

The paradox of falling labour force participation even in periods of economic growth has been widely addressed in the existing literature. Within this is a relatively unexplored strand of reasoning which looks at the role of financial inclusion in changing women's participation rates. Although several advances have been made in recent years to expand formal financial services globally, there persists a significant access gap between men and women. This gender gap is more pronounced in developing markets with the largest gap, 18 percentage points, observed in South Asia (Demirguc-Kunt et al., 2015). In India, existing societal norms, low literacy levels as well as lack of access to fixed assets further excludes women from the formal financial structure, thereby hampering their socio-economic growth.

Why is Financial Inclusion Important?

Women's access to economic and financial resources is vital for their empowerment. Financial inclusion is important for women to access loans, credit, and to make transactions. Additionally, it can also aid poverty reduction by allowing women to save money and build assets in a safe place.

Around the world, women are underrepresented and underserved by the global financial system. The persistent gender gaps in access to finance act as a roadblock to both societal and economic growth. Barriers to entry not only put women in a disadvantageous position and hinder their empowerment, but also hold back development in many countries.

Several studies conducted around the world have concluded that women's access to basic financial services can impact the wellbeing of the family, community and the country. In a study based in Nepal that looked into the long-term impact of access to accounts that do not have any opening, maintenance or withdrawal fees for female heads of household, it was found that it led to an increase in schooling levels of daughters and the aspirations parents have for their education (Chiapa et al., 2015). It also enhanced their responsiveness to health emergencies. In a study in Bangladesh, access to microcredit was associated with better health and nutrition outcomes for both girls and boys (Pitt et al., 2003). In a similar study looking at the consumption flow of programme credit, a larger impact effect on the behaviour of women was observed. This was especially true in the case of household expenditure (Khandker and Pitt, 1998). Analogous results have been noted for a commitment savings product in the Philippines, which led to more decision-making power in the household for women, and likewise more purchases of female-oriented durable goods (Ashraf et al., 2006).

In the absence of adequate job opportunities, access to formal credit can give women the chance to undertake entrepreneurial activities, thereby promoting self-sufficiency while also providing flexible work hours and a safe working environment. Women-owned businesses can then pave the way for additional employment opportunities for other women workers.

Moreover, as financial customers, women are generally less credit risks, especially for micro finance institutions (MFIs), as they display greater willingness to repay microcredit (D'Espallier et al., 2011; Chakravarty et al, 2013). Even as financial agents, the presence of women as well as a higher share of women on bank boards is associated with greater financial resilience and bank stability (Sahay and Cihak, 2018). In developing countries, a higher representation of women as bank staff and field agents also positively impacts the uptake of services by women customers.

In a society like India where women have historically occupied a disadvantageous position, access to credit can ensure greater bargaining power within the household as well as outside which, in turn, can lead to more gender equal allocations. An increase in women's control over household resources can encourage labour force participation in settings where male preference constrains female employment.

It can also advance the status of women entrepreneurs who are credit deprived, lack adequate collateral and rely on self-help groups (SHGs) and informal sources of borrowing to meet their requirements, thus restricting their size and operations. Adequate access to financial services could translate into higher investment in business and expansion beyond their micro standing.

Therefore, closing the gender gap in access to formal finance can contribute positively to women's empowerment as well as to the country's growth and business evolution. The impact of combining gender-targeted financial inclusion policies with policies that lower constraints on formal sector employment can boost India's output by 6.8 per cent (Khera, 2019). Furthermore, it can also reduce inequality and enable social inclusion.

Ongoing Interventions

There are several gender-based barriers that women face while accessing financial services and products. Some of the demand side barriers to financial inclusion that are extremely pervasive in India are low bargaining power within the household, concentration of women in low-paying activities, limited financial capability and financial literacy, lack of assets for collateral, reduced mobility due to social or time constraints, and lower rates of formal identification and cell ownership necessary for accessing digital products (Holloway et al., 2017). These are in addition to the supply side barriers such as inappropriate product offerings, lack of gender- specific policies, discrimination towards women entrepreneurs and geographic distance to financial institutions.

SHGs have had some success in trying to mitigate the problems faced by women to achieve financial integration. These groups aim to engage women in income generation activities to make them economically self-reliant. They do so by providing them with customised savings and credit facilities for their needs, thereby removing their reliance on local moneylenders in villages. SHGs in India have become a tool for mobilising women, aiding their economic and political empowerment, as well as their control over family planning (Brody et al., 2017). However, they do not take into account the wider aspects of gender relations in the family and often follow a top-down implementation which hampers growth and inclusion (Jakimow and Kilby, 2006). Further, the debt contracts under SHGs and MFIs require early repayment discourage illiquid investment and limit the potential impact of microfinance on microenterprise growth (Field et al, 2013).

Novel interventions enacted by the Government of India such as the Pradhan Mantri Jan Dhan Yojana and the Pradhan Mantri Mudra Yojana have also tried to address some of the supply side barriers. Both these schemes lay special emphasis on including women within the financial system.

The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a flagship scheme which envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit insurance, pension facility and overdraft facility.

The Pradhan Mantri Mudra Yojana (PMMY) is another programme targeted at facilitating easy institutional credit and was launched with the aim of encouraging women to start new ventures using the discounted loans. Its salient features, among others, include extending institutional finance by providing loans up to ₹ 10 lakh for manufacturing, processing, trading, services and activities allied to agriculture; provision of Mudra card for withdrawal of working capital; refinance facility for member lending institutions (MLIs); and credit banking facilities.

These financial sector initiatives have seen some success in enhancing financial inclusion for the most disadvantaged groups, particularly women, those with low education levels, the poor and the rural population (Günther, 2017). More than 240 million previously unbanked individuals, among whom about 47 per cent are females, have gained access to bank accounts since the launch of the PMJDY in August 2014. This has improved saving and investment among women and given them a greater sense of confidence (Singh and Naik, 2018). Similar success has been noted in terms of the number of beneficiaries under the PMMY, the majority of whom are women (A. Mahajan, 2018). Since its inception, the government claims to have breached all limits of the target amount.

However, a closer look at the PMMY shows that although women have availed of the highest number of loans under the scheme, 86 per cent of all loans were concentrated in the Shishu category (smallest loan category up to ₹50,000), and the average size of the loan in 2018–19 was ₹53,800, which was a marginal increase of around ₹1,000 since 2017–18. In fact, women comprised 75 per cent of all loans expended under the Shishu category (Y. D. Mahajan, 2019). The average amount disbursed to women entrepreneurs was ₹26,747, which appears to be insufficient to begin a viable microenterprise and empower women. The number of large loans or disbursement exceeding ₹5.0 lakh which can generate employment among women were less than 0.2 per cent (Kandpal and Grover, 2020).

Even in the case of the PMJDY, the increased opening of accounts is also accompanied by an increase in the number of duplicate accounts indicating that PMJDY account holders might be moving away from the initial objective of opening accounts for the unbanked. There is also evidence that one in five accounts under the PMJDY are dormant[1], while a third of the accounts were issued to people who already had another bank account. Even for active accounts, the penetration of the overdraft facility is as low as 7 per cent and access to debit cards is also limited (Sharma et al., 2016).

The mixed evidence surrounding these policies highlights the need to change from the approach of only restricting credit supply to women and adopting a more multi-sectoral intervention which addresses some of the demand side barriers to equitable financial inclusion.

Steps Moving Ahead

In light of these constraints, the following proposals can be taken into consideration:

Women as banking agents: Women form a very small proportion of the financial industry workforce. This in turn has implications for the way female clients use and benefit from financial services (Jhabvala et al., 2014). A report by the Helix Institute of Digital Finance (2015) on the Indian financial agent network found that of the 2,682 active financial agents surveyed across rural and urban locations, only about 9 per cent were women. This underrepresentation of female agents may contribute to the persistent gender gap in financial access and usage as clients are most likely to transact with agents of their own gender (Chamboko et al., 2020). SEWA Bharat's own studies also confirm that women tend to save and borrow more when they are served by female financial intermediaries (Jhabvala et al., 2014). Therefore, promoting banking jobs as a viable job opportunity among women will directly impact their labour force participation as well as enable their financial inclusion.

Tapping into the network of SHGs to promote formal credit: The role of Self-Help Groups (SHGs) has been crucial in overcoming the obstacles faced by women in India while integrating themselves within the financial system (Shetty and Hans, 2018). However, participation in these groups is voluntary and therefore prone to self-selection leaving out the most vulnerable groups among women. Therefore, adequate agreements or incentives should be introduced to stimulate the poorest of poor to participate in SHGs. These incentives might be either financial, for example, by offering them the opportunity to participate with no savings requirements, or non-financial, for example, by encouraging husbands or mothers-in-law to let their spouses and daughters-in-law participate in SHGs (Brody et al., 2017). They should also look to modify repayment contracts to allow long term investment and expansion of microenterprises under women entrepreneurs.

Streamlining the process of obtaining credit for women entrepreneurs: Women in India are less likely to have formal identification and access to traditional forms of collateral which inhibits their access to financial services. In addition, businesses owned by women entrepreneurs are viewed as investment risks owing to their small scale of operation which further impedes their access to formal sources of credit. Therefore, there is a need to streamline and innovate the process of obtaining credit so as to include more women entrepreneurs in the financial system. One way of achieving this is by non-traditional forms of collateral and instituting a system of peer checks to ensure timely payments as is done in SEWA Banks. Additionally, one can also improve the existing outreach and accessibility under the Pradhan Mantri MUDRA Yojana (PMMY) to allow women entrepreneurs easy access to credit.

Follow-up on MUDRA loans to tackle proxies: Due to the preference given to women under the PMMY, many people might approach financial institutions to sanction loans to the female members in their families, thereby creating a pool of proxies within the system[2]. There is a need to further explore the extent of this 'male capture' of loans and make adequate provisions to prevent the same. Similar mechanisms need to be adopted to understand the utilisation patterns of the Jan Dhan accounts.

1 https://www.thehindubusinessline.com/money-and-banking/almost-every-fifth-jan-dhan-account inoperative/article30754738.ece
2 https://www.indiatoday.in/india/story/mudra-yojana-is-a-mission-or-mess-5-point-fact-checker-1244538-2018-05-29

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