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Study of Financial Institutions in Granting Credit Facilities to Women Entrepreneurs

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ABSTRACT: Entrepreneurship refers to starting a new business or venture. Schumpeter defines an entrepreneur as, a person who is willing and able to convert an original idea and invention into a successful innovation. A person who wants to be a promising entrepreneur should possess the self-reliance and ability to deal with an unpredictably adverse circumstance. To receive the utmost contribution from the entrepreneurs for the progress of the society and the nation as a whole, it is indispensable to support them financially and socially. Inadequate capital for starting a new business is one of the leading problems for the women entrepreneurs. Usually, women initiate their business with limited money collected by savings from family expenditure, relatives or other sources. To get a bank loan, women are required to put collateral. But they do not have sufficient fixed capital to place as collateral or a guarantor to get a small loan from the bank. Involvement in business by women entrepreneur is advancing throughout the world. In the past year, 163 million women were starting businesses across 74 economies worldwide, while 111 million were running established businesses. The contribution of women to the GDP growth 34%. Women enter the business for not only earning money, survival and rising of living standards but also to develop their careers and establish their rights into the society and the nation. Empirical studies demonstrate that women confront obstacles not only in starting their venture but also in running it. Some studies found that though women entrepreneurs are satisfied with their enterprise, they still encounter difficulties resulted from non-availability of different supportive services, access to finance, society and family. On the other hand, a business owned by a single woman is less likely to start its operation after obtaining bank loan due to liquidity constraints, and the public policy programme specially targeted liquidity-constrained women were effective in accelerating rate of women entrepreneurs.

Abundant studies on the challenges of women entrepreneurship development have been conducted. Most of the studies have found that women entrepreneurs principally encounter complexities regarding family, society, financial access and support services. Some studies specifically focus on the financing behaviour of the women entrepreneurs.

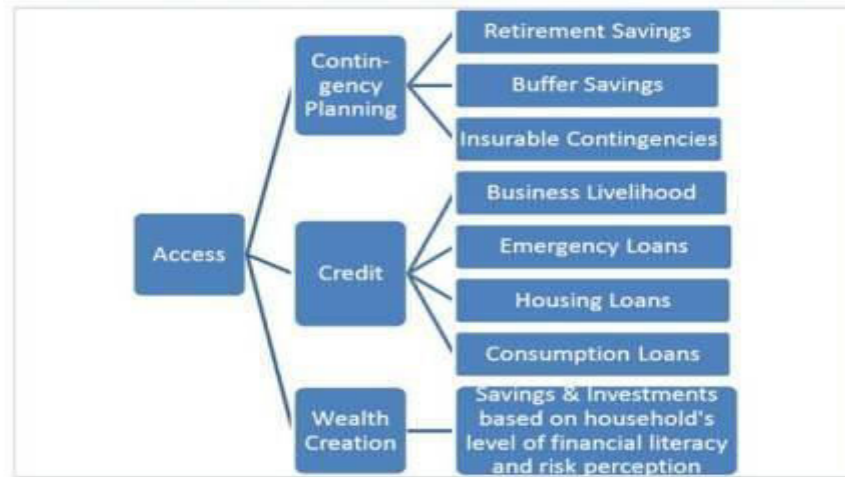
KEYWORDS: women, entrepreneurs, credit, family, business, money, enterprise, commercial

I. INTRODUCTION

The phrase women in business considers the historical exclusion of women in leadership roles, particularly in the field of commerce, business and entrepreneurship. Today, the phrase advocates for increased participation of women in the business, aiming to diversifying the workforce and those who contribute to the development of ideas. Compared to before, there is more equitable distribution of women in corporate leadership and entrepreneurship roles.

Increased participation of women in business is important for variation in business development, ideas and products. Participation also encourages the development of social networks and support that have positive repercussions for women and their social environment.[1,2]

Figure 1: Household Access to Financial Services



Source: A Hundred Small Steps - Report of the Committee on Financial Sector Reforms (Chairman : Dr. Raghuram Rajan),

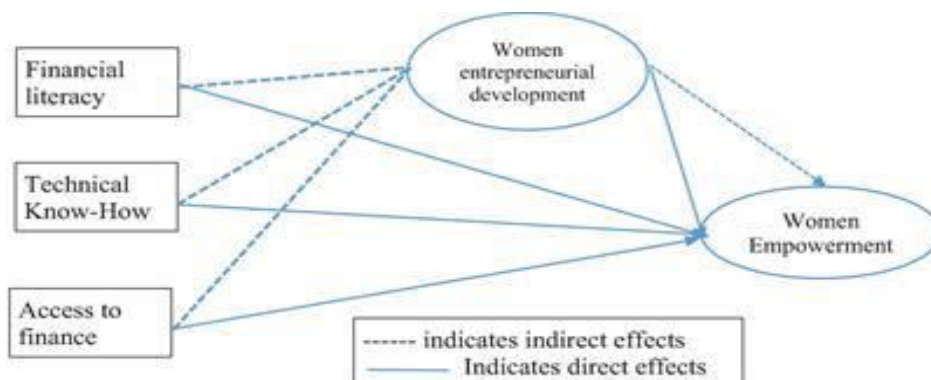
The state of women in business varies significantly around the world. The number of women-owned businesses increased by nearly 3,000% since 1972 according to the "2018 State of Women-Owned Businesses Report" commissioned by American Express. [3,4]

Although society has made considerable advances to promote women in business, there is still a lack of career guidance, family commitment, sexual discrimination, lack of adequate capital, inadequate education and lack of access to, or training in the use of technology. Women are more constrained than men by their social and political environment.

The number of women as entrepreneurs is increasing in both developed and developing countries, and national governments are paying more and more attention to the practice.[5,6]

Entrepreneurs play a vital role in economic growth of a nation in many ways like job creation, innovation, income multiplier etc and it depends upon priorities and different stage of market reforms. Direct support to SME is needed to overcome the hurdles and realize their potential. Entry into Entrepreneurship is directly linked with the increase in the personal wealth. Centre for Business Women Research reports and suggested business training for the women entrepreneurs and improving network structure especially with women. The primary resource acts as a catalyst against all the old and new debts. It has been analyzed that the government was helping the women for entrepreneurship development by providing credit assistance in various forms such as term loans, interest, subsidy, unsecured loans and concession in the form of subsidies in the capital, self employment loan etc. Training to women is provided to set up small industrial units and support for marketing their product. The assistance by the government to women entrepreneurship has been provided through several intermediaries' institutions like SIDO, DIC, EDI, NAYE, NISIET, SIDBI, SEF, WCFC and commercial banks etc. [7,8]

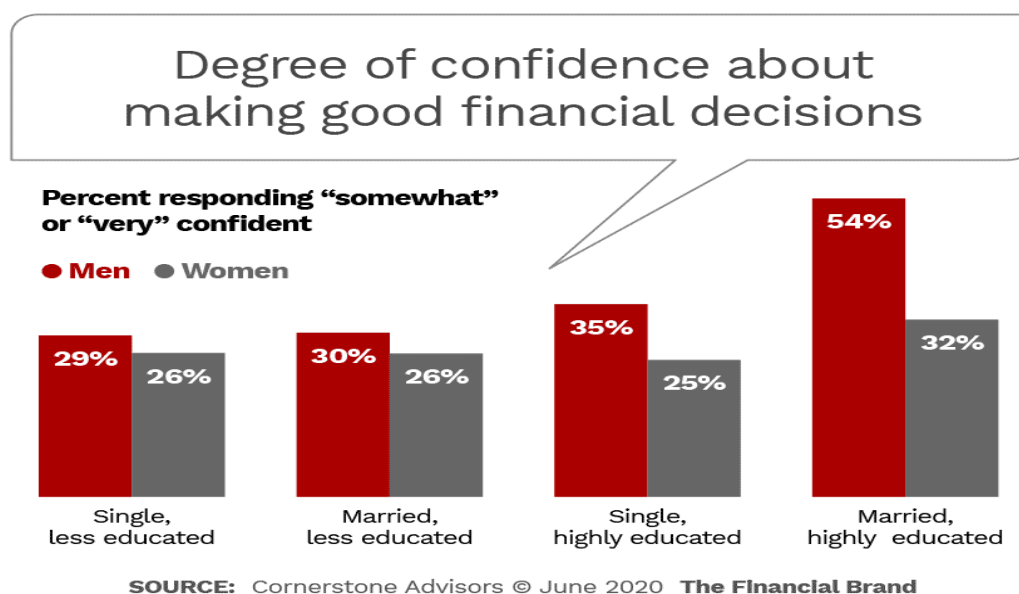
Microfinance is seen as a tool for poverty elimination by providing various services characterized as financial and non-financial to minority groups in the society to be included in the mainstream financial system. It is necessary to find out the effect of microfinance institutions' (MFIs) financial and non-financial services by institutions on women's entrepreneurship and empowerment. To gain a deeper understanding of the effectiveness of microfinance services, the study is undertaken to address the question of what kinds of services are available and whether the MFI services are in line with the actual needs of women entrepreneurs to improve their performance. Hence, a qualitative approach is adopted using semi-structured interview questions to collect data from women entrepreneurs. The results showed that, as regards financial services, the most important needs of women entrepreneurs include providing adequate financing with necessary financial facilities such as reducing interest, reducing monthly installments, and extending the grace period, while non-financial services should include holding specialized courses, accessing a counseling center, providing incentives and psychological support, marketing support, and monitoring and evaluation. [9,10]



II. DISCUSSION

Female business people are the quickest developing kind of business person on the planet, and they have aroused the curiosity of numerous scholastics, especially in recent year. Female entrepreneurship ranges from just over 1.5 percent to 45.4 percent of the adult female population in the 59 economies included in the Global Entrepreneurship Monitor research project. Although entrepreneurial activity among women is highest in emerging economies (45.5 percent), the proportion of all women entrepreneurs varies considerably among the economies: from 16 percent in the Republic of Korea to 55 percent in Ghana—the only economy with more women than men entrepreneurs. A multi-year analysis shows that this gender gap has persisted across most economies for the past nine years (2002-2010). Moreover, in many emerging economies, women are now starting a business faster than men, making significant contributions to job creation and economic growth. Women are more likely to start businesses that focus on sustainability.

The independent variable “collateral requirements by financial institutions” will be measured by: type and values of property ownership by women entrepreneurs, types and values of security required by financial institutions. Most financial institutions demand collateral as one of the requirements for the access to credit facilities. This becomes a constraint to the entrepreneurs, most of who may not have deeds to capital assets to present as security against the loans. This factor reduces accessibility of these loans. [11,12] Furthermore, most lending institutions are more inclined to lending to the large scale businesses that have higher success rate, and repayment rate. The measure of the independent variable “interest rates charged by financial institutions” will be: interest rates charged on credit, credit repayment period, penalties for defaults or delays in repayment, and loan processing charges. [13]



The rate of interest rate charged on the credit determines the cost of the credit. The cost credit is the amount of money the borrower is obligated to pay above the principal sum of credit. Scientists defined interest as the return on capital. Cost of credit can be classified as; gross interest and net interest. Gross interest is the total amount that the debtor to a creditor and the net interest means the part of interest that is for the use of capital only. The interest rate usually as a percentage of the borrowed amount, determines the amount of interest over duration, which may be a year. High interest rate therefore increases the cost of credit. High interest rate on credit may discourage entrepreneurs from borrowing reducing the accessibility of credit among them.[14]

III. RESULTS

The Women Entrepreneurship Platform (WEP) is a unified access portal which brings together women from different regions of India, across economies to realize their entrepreneurial aspirations. The idea of the Platform was first mooted by Shri Amitabh Kant, CEO, NITI Aayog who announced the setting-up of a Women Entrepreneurship Platform in NITI Aayog at the conclusion of the 8th Global Entrepreneurship Summit (GES) held in Hyderabad in 2017.



According to the Global Entrepreneurship Monitor report, “women are nearly one-third more likely to start businesses out of necessity than men.” Because women are overtaking their male peers in the level of education obtained, having higher education degrees is one of the significant characteristics that many successful female entrepreneurs have in common. The average self-employment rate for women under 25 years old in OECD countries is 7.2% The number of self-employed women has steadily increased over the past three decades, putting them at an approximate thirty-three per cent increase. Many female-owned businesses continue to be home-based operations. These types of businesses usually have limited revenue with about eighty per cent of them making less than \$50,000 in 2002. This group made up about six per cent of total women-owned businesses. Children of these female entrepreneurs are expected to boost that number as they contribute to the growing number of female entrepreneurs. Most women-owned businesses are in wholesale, retail trade, and manufacturing. Female entrepreneurs have also made a name for themselves in professional, scientific, and technical services, as well as in healthcare and social assistance. In the majority of OECD countries, female entrepreneurs are more likely to work in the services industry than their male counterparts. Even though female entrepreneurship and the formation of female-owned business networks is steadily rising, there are a number of challenges and obstacles that female entrepreneurs face. One major challenge for female entrepreneurs faces traditional gender roles that are structurally internalized by society. Entrepreneurship is still considered as a male-dominated field, and it may be difficult to surpass these conventional views. Other than dealing with the dominant stereotype, female entrepreneurs are facing several obstacles related to their businesses.[15]

Role of Financial Institution



Other research has shown that women entrepreneurs are already launching ambitious businesses in the high-technology industry, expanding their social networks, and making their pitches more relatable to the male-dominated VC industry, despite many industry people believing that women are not doing that. Some studies, though, have looked at the social networks of women entrepreneurs, showing that their networks are different from that of their male counterparts and aren't overlapping as much with financial networks. Some of these barriers include stereotypes and gender bias. But one of the most important aspects that is often not recognized as much is that some of these barriers come from the way that engineering and mathematics programs at universities are geared more towards men. An example outlined in this study was that a woman going into a math exam naturally feels more pressure due to the idea that men are better at math, and the environment of being in a room with more men would subconsciously affect performance as well. In addition, women having the ability to get out of the mindset that they have a fixed amount of intelligence is imperative in achieving more in the scientific world. There are hundreds of peer-reviewed research papers written focusing on many different aspects of education, specifically regarding STEM, that explain the implicit bias against women

Entrepreneurs are not the only ones affected by gender stereotypes. The whole process of seeking financing, from the relationships between entrepreneurs and investors to the human and social capital, have been shown to have gender embedded in them. It has been shown that women tend to emphasise the human and social capital they have, in an effort to compensate for the lack of resources usually associated with the ideal entrepreneur, especially since other studies have shown that the ideal entrepreneur usually has attributes generally associated to male entrepreneurs[14,15]

IV. CONCLUSIONS

Many studies show that women start their own businesses for a variety of reasons. These reasons include the following: having an idea for a business plan, having a passion for solving a specifically related career problem, wanting to be more in control of their careers, maintaining a more balanced life, having a flexible work schedule, and taking a personal vision and turning it into a lucrative business. Along with the intense desire to see their vision carried out, these women also have a great ability to multi-task and never feared the risks involved in being self-employed. Women are still facing many issues in the workforce, and being their own boss certainly is more appealing to some of the everyday issues they face outside of entrepreneurship. Gender roles are still very much a part of their lives, but some female entrepreneurs, they feel more in control when working for themselves. Feminist entrepreneurs are motivated to enter commercial markets by desire to create wealth and social change, based on the ethics of cooperation, equality, and mutual respect. [16]

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