

MSME sector promotes female labor participation and economic growth significantly: Mann Deshi Bank

Lead Organization: Mann Deshi Foundation

Geographic Spread: Maharashtra, India



Key Message: In India, women entrepreneurs play a substantial role in advancing the economic growth of the country. According to the 6th Economic Census (2016), women in India collectively contribute 3.09% of industrial output and employ 10% of the total workers in various economic activities. India ranks third-highest in entrepreneurship gender gap across the world, as per the data of Global Entrepreneurship Monitor (GEM) 2014, in India only 33 percent of the early-stage entrepreneurs are women. Women owning micro small and medium enterprises (MSMEs) widely point to the lack of access to capital as the biggest challenge in running their businesses.

Need:

In developing countries, MSMEs are an integral part of the economy and play a vital role in promoting growth, innovation, and prosperity. Formal MSMEs contribute up to 45 percent of total employment globally, and up to 33 percent of GDP in emerging economies (Peer, Goland, & Schiff, 2010).

There is significant factual evidence of labor force participation stimulating economic growth. According to the 2015 McKinsey Global Institute Report, “The Power of Parity, India can increase its GDP by anywhere between 16 and 60 percent by 2025 through equal participation of women in the labor force, which amounts to an additional USD 700 million–USD 2.9 trillion.” Also highlighted that 10.24 percent of employment contributed by women-owned enterprises, gender parity can be a significant engine for job growth and equity. However, in India gender gaps in the labor force persist. Only 50 percent of working-age women are in the labor force compared to 77 percent of men. India has the largest gender gaps in the World. Therefore it is crucial to address the gender gap in employment to boost economic dividends. Higher self-employment in

women boosts female labor participation. On average, female self-employment is higher in developing countries (represents more than 50% of female labour force participation) than in the developed world. This clearly shows that the MSME sector is an important means of raising female labor force participation.

According to a report published by the International Finance Corporation (IFC) in there are more than 40 million formal SMEs globally, and approximately a third of them are owned by women. This translates to approximately 12 million women-owned formal SMEs worldwide, of which approximately 7 million are in developing regions”. GEM Global Women’s Report estimates that “there are more than 200 million women entrepreneurs who are starting their businesses, whether formal or informal or partially owned, and another 128 million who operate established businesses”. In India alone there are over 3.01 million businesses owned fully or partially by women. Women entrepreneurs collectively contribute 3.09 % of industrial output (IFC, 2014). More importantly, they employ 13.48 million people, or 10.24 % of

the total workforce (6th Economic Census, 2016).

Despite the increasing recognition of women entrepreneur's contribution to economic growth, financing constraints remain a challenge for them. According to the Global Financial Inclusion database, 2014, "even women in high-income Organization for Economic Cooperation and Development countries had 20 percent less success in borrowing from a financial institution than their male counterparts in the past 12 months". This discrepancy is often attributed to a host of gender-sensitive factors such as lack of collateral, weak property rights and unconscious bias, regulations, laws and customs. The opportunity cost of this gender gap is significant, given that women entrepreneurs' economic impact has a multiplier effect.

In India, lending to women-owned MSMEs, as a distinct segment is still unexplored as compared to lending to the other sectors. Due to a lack of awareness about women-owned businesses, formal financial institutions have made effort to better understand the business opportunity the segment presents. **One of the biggest barriers to financial institutions supporting women entrepreneurs is the lack of reliable data disaggregated by gender.** In cases where formal institutions have launched schemes to target the business needs of women-owned businesses, a lack of awareness and limited outreach, especially in rural areas has meant that the impact has remained limited. There is a need to understand the state of their operations in India, with the growing recognition of women entrepreneurs' contribution to economic growth. It is essential to drawing up country-specific strategies to improve their access to finance for women-owned Micro, Small, and Medium Enterprises.

Response:

The Mann Deshi Foundation was set up in 1996. It is a regulated urban cooperative

bank run by women, for women, and is the first women's cooperative bank to receive a banking license from the RBI for rural areas. While Mann Deshi works in the same market as moneylenders, its success lies in merging comprehensive livelihood promotion packages with financial and non-financial services. Mann Deshi's products are demand-driven and gender-responsive. The bank has designed products keeping in mind that women's work is fragmented and their cash flows are unorganized. Through its various products, Mann Deshi impacts over 25,000 women entrepreneurs every year. For many clients, Mann Deshi's banking services are the first institutionalized forms of lending and savings they have had access to. Due to its doorstep banking services, clients are able to repay their loans and save their money on a daily or weekly basis. Thus, women are less likely to fall into debt and can accrue interest on their deposits, saving more money in the long term. With these loans, women have started new businesses, expanded already successful businesses, and created long-term assets by purchasing and/or building homes. The cooperative bank provides financial services to over 155,000 clients, reaching 37,000 women entrepreneurs through its seven branches in Maharashtra. These services include loans, savings, pension, and insurance, and are provided by field agents who travel to clients' doorsteps. Mann Deshi boasts healthy parameters: capital-to-risk weighted assets ratio (CRAR) has always been above 15 percent, credit-deposit (CD) ratio above 60 percent, and Gross NPAs below 1 percent. Financial inclusion is a priority for Mann Deshi.

Process:

Mann Deshi comprises two organizations:

1. Mann Deshi Mahila Sahakari Bank Ltd (Mann Deshi Bank), a rural cooperative bank run by, and exclusively for, women; and
2. Mann Deshi Foundation, a registered non-governmental organization.

These work in conjunction to empower women microentrepreneurs providing them access to financial products and services, in addition to building capacity in business management.

Mann Deshi Bank's success is largely credited to its demand-responsive product innovations. The bank's staff collects data on vendors in markets using a short questionnaire called 'financial diary'. This promotes a better understanding of the customer's characteristics, including sales and income, cash flow requirement, and business risks. Mann Deshi Foundation's flagship program 'Mann Deshi Udyogini' launched in 2006, in collaboration with Hong Kong and Shanghai Banking Corporation (HSBC) India as a founding sponsor, aims to springboard risk-taking entrepreneurs through short and long-term business management and entrepreneurship courses. Successful graduates from the program are subsequently guaranteed loans from the bank. The three categories of training offered through Udyogini centers are:

- Technical training in agricultural, veterinarian, and non-agro based livelihoods;
- Financial management courses to build knowledge and discipline of financial planning and wealth management; and
- Deshi MBA or business management training on market mapping, basic financial modeling, accounting, and book-keeping, recruiting and training HR, including mentorship and exposure visits among others.

Mann Deshi's non-performing assets (NPAs) are just about 1 percent for micro enterprises – significantly lower than that of many public and private banks in the MSME segment. It is a testament to the bank's robust credit appraisal systems that are rooted in non-conventional assessment mechanisms. Additionally, demand-responsive products like the Weekly Market Cash Credit are efficiently meeting women entrepreneur's requirements.

Objective:

Mann Deshi Foundation objective is to empower rural women entrepreneurs with the knowledge, skills and access to capital and support to have more control over their personal and professional lives. Rural Indian women are held back from growing their income by a lack of access to institutional banking services, opportunities for skill building and access to support networks. Moreover, they rarely have a say in how to spend their income. They focus on nurturing and supporting micro-entrepreneurs. Their model starts with creating access to and control over finance and continues to develop programmes around the needs identified by women to support their growth. Their aim is to:

1. Provide financing to women entrepreneurs to expand their businesses
2. Represent rural women's concerns at the national and international level for Banking and Financial Inclusion
3. Create new and customised credit products and services specifically for rural women
4. Provide insurance schemes and products
5. Promote digital banking
6. Provide doorstep banking services

Overcoming Barrier:

The Mann Deshi foundation ensured financial inclusion for women entrepreneurs who would otherwise struggle to get access to even informal sources of finance. It empowered women and provide financial assistant to women entrepreneurs and women-owned MSMEs. Mann Deshi impacts over 25,000 women entrepreneurs every year. For many clients, Mann Deshi's banking services are the first institutionalized forms of lending and savings they have had access to. Due to its doorstep banking services, clients are able to repay their loans and save their money on a daily or weekly basis. Thus, women are less likely to fall into debt and can accrue interest on their deposits, saving more money in the long term. With these loans,

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Economic Benefits:

The bank gives out-group loans with a cash credit (CC) limit of INR 40,000 (USD 596) to women at an interest rate of 24 percent on reducing balance – computed every week on outstanding amounts. Women can withdraw cash, whenever needed, from their CC accounts for the purchase of goods; they can repay it in the marketplace at the close of the same day. This form of working capital finance has played an important role in substituting informal credit in these markets, where borrowers paid moneylender interest up to 10-20 percent per day i.e. a whopping 3,650 percent a year. The CC account is designed to remit or charge interest on the account depending on the account's surplus or deficit balance.

Social Benefits:

The gender gap in financial inclusion can act as an enabler of countries' development, economic growth, inequality reduction, business evolution, and social inclusion. However, greater women's financial inclusion requires a more gender inclusive financial system that addresses the specific demand- and supply-side barriers women face. An inclusive regulatory environment is also relevant. It is important to acknowledge that broader social

constraints related to intra-household bargaining power and the social status of women limit the broader impact of financial inclusion on women's economic empowerment. While these are cross cutting constraints that are beyond the scope of financial inclusion programming, it is crucial to recognize them to ensure financial inclusion can have a transformational impact (Ngwemo et al. 2018).the foundation empowered rural women entrepreneurs with the knowledge, skills and access to capital and support to have more control over their personal and professional lives and boost their confidence.

Environmental Benefits:

Mann Taluka (Satara District), the birthplace of Mann Deshi, is a drought-prone area. So apart from their work on women's economic empowerment, they also work on local community issues such as water conservation and farming. Mann taluka experienced a devastating drought. To protect and nurture livestock,they organized a nine-month long cattle camp that housed over 7,000 animals and over 1,500 farming families from nearby regions, providing them with fodder, water and support. Water management and conservation was the need of the hour. That's when the Mann Deshi team decided to build reservoirs. From 2012 to 2019 Mann Deshi has built 16 reservoirs to conserve the water and increase the groundwater level, however, in times of extreme drought when it doesn't rain for years together, the situation becomes dire. To date they have built 16 check dams, including one along the long-dried up Mann river, thus making drinking water available for about 50,000 people, and irrigating more than 1300 hectares of land, they built three bandharas that rejuvenated 70 wells and irrigated over 100 hectares. Over 400 farming families improved productivity and another 700 families benefited from clean, easily accessible water and also revived ground water levels.