Gender and Economic Policy Discussion Forum

'Women and Investment: State, Market and Personal Investment'

FORUM XV | 24 FEBRUARY 2015 BRIEFING NOTE 15

HIGHLIGHTS / KEY POINTS

- 26 per cent of all rural workers and 14 per cent of all urban workers are women
- The primary reason why commercial banks do not provide loans to women is because of the perception that they do not pay back
- Credit reliability does not guarantee access to credit; banks need to work towards making their services simple and accessible
- Need to promote Self help groups which work towards non-financial, holistic development of women
- Financial inclusion does not mean merely having a bank account; actual financial inclusion means having access to credit
- 23 per cent, or less than one in every four working women, take their own financial decisions about where and how to invest
- Lack of financial knowledge is grave in India, especially amongst women
- If the government has budget constraints, investment in infrastructure should be made with a gender lens

The Gender and Economic Policy (GEP) Discussion Forum on 'Women and Investment: State, Market and Personal Investment' held on 24th February 2015 discussed both the financial investments that women make, and those that are made in them. The constraints women face while making personal investments and investing in the commodity market were discussed. The state's role and public investments in women were also explored. The discussion highlighted the need for greater access to credit and financial literacy, and came up with policy suggestions to improve the above.

The speakers at the forum were Dr. Syed Mazher Hussain from Confederation of Voluntary Associations (COVA), Ms. Yamini Sood from DSP Black Rock Mutual Fund and Dr. Lekha Chakraborty from National Institute of Public Finance and Policy (NIPFP). The discussion was chaired by Dr. Anushree Sinha from the National Council of Applied Economic Research (NCAER).

The Indian economy is seen as a dominant force in Asia's economic growth and home to the world's second-largest workforce—around 478 million people[1]. However, despite having one of the most progressive federal constitutions and an extraordinary track record of economic growth since the early 1990s, the participation of women in India's formal economy is disappointingly low. According to the 2011 census data, just 26 per cent of all rural workers and 14 per cent of all urban workers are women[2].

In addition, not much research has been done on how women invest their income or how the state, in turn, invests into women. Development data repeatedly reinforces the point that investing in women's health and education results in poverty alleviation, increased development, and healthier, better-educated children. Lakshmi Puri, the assistant secretary-general of UN Women, noted in 2011 that India's growth rate could jump by 4.2 per cent if women were given more opportunities. That would push India's current growth rate of about 7.5 per cent closer to 11 per cent, making it, once again, one of the world's fastest accelerating economies[3]. Therefore, investing in women means investing in communities and, in turn, nations.

Credit and Commodity markets

In India, since the nationalization of banks, government policy looked at banks as instruments of social transformation. On the other hand, private banks look at themselves as vehicles for profit-making for the stockholders. Thus, there is an inherent tension between these two perspectives. However, being a banker, Dr. Syed Mazher Hussain felt that the greatest structure in society which brings inequality is the bank. 80 per cent of all deposits in banks are by the poor and the middle class and only 20 per cent of all deposits is from the corporate and industry. Further, this 20 per cent is in current account (which is what make banks profitable) and the remaining 80 per cent is in saving accounts which is what make banks profitable. However, the lending patterns are completely opposite: 80 per cent of all loans go to the corporate and industry, 15 per cent to the middle class and a mere 0.2 per cent goes to the poor.

Women and poor face numerous constraints while accessing the Credit and Commodities market. One of the primary reasons why commercial banks do not provide loans to women or poor people at large is because of the perception that they do not pay back. On the contrary, data collected by RBI shows that 95 per cent of the one trillion rupees written off by banks as cannot be recovered between the year 2000 and 2013 were given to the corporate & industry[4]. And women are a very miniscule part of this sector. The other 5 per cent were given to medium industries. In addition, according to a global study which covered 350 Micro-finance Institutions (MFIs) in 70 countries, women clients are associated with lower portfolio-at-risk, lower write-offs, and lower credit-loss provisions. This shows that investing in women will not necessarily lead to losses[5].

The Differential Rate of Interest (DRI) scheme was introduced by the Government of India and makes it mandatory for commercial banks to give 1 per cent of their total advances (at the end of the previous year) for productive/self-employment ventures at a concessional rate of 4 per cent per annum[6]. However, because of the perception that poor do not pay back, DRI advances of commercial banks in Kerala recorded a low level growth of 0.02 per cent in 2009 in comparison to its last year's advances[7]. To disprove this perception, Confederation of Voluntary Associations (COVA) did a pilot survey for one year by giving out loans to the poor. In this pilot, 50 per cent borrowers were women and the recovery rate was an astounding 99.6 per cent. This provides strong evidence that women and poor have credit reliability (the power to pay back). However, having credit reliability does not guarantee access to credit. Banks need to work towards making their services simple and accessible. First, there is a need to simplify MSME and DRI loan forms as most of the people applying for these loans have low levels of education. Second, bank staff should get proper training in order to work with the poor/marginalized community effectively.

Women also have access to credit through Self-help groups. But, even though access to credit through SHGs is a positive step, direct access to bank credit is equally important. The only reason SHGs were brought in was because it was believed that banks do not have the staff to serve the thousands of poor people. On the contrary, banks do have the capacity to directly lend finance to the poor. Even in the interiors areas, through the schemes of Bank Correspondence (BCs), the poor can get direct access to finances if banks take the required affirmative action towards such financing.

It is important to link banks directly to the poor because Self-help groups are problematic for various reasons. Firstly, women are charged interest rates of up to 48 per cent[8] for micro-finance loans as compared to just 4 per cent for DRI Loans. Secondly, women also serve as proxies for men when it comes to loans i.e. men take loans in the name of the women of their family. Hence, these loans are used by men or for personal consumption by the family and do not empower women in any way. This is reinstated by the numerous cases of suicides amongst women, especially in Andhra Pradesh, as they are not able to pay back loans[9]. Thirdly, there is also the problem of political misuse of SHGs, as on numerous occasions, SHG women are mobilized for political rallies. Money is pumped in these SHGs once in every five years (before the elections); just to show that the government is functioning. However, Self-help groups which work towards non-financial, holistic development of women and not just serve as a vehicle to access finance benefit women significantly. SHGs which promote entrepreneurship, e-commerce and marketing linkages are also beneficial. These SHGs should additionally enable women's participation in governance and decision making.

An innovative idea which will link banks to the poor is the 'Bank deposit card'. This idea stems from the issues that poor people face while depositing money in banks. As they receive income on a daily basis, it is difficult for them to deposit money every day in the bank. So, just like mobile recharge cards, the government can come up with a bank deposit card which would be available everywhere (and can be bought from the local shopkeeper). One could buy a card equivalent to the amount one wants to deposit, scratch it and insert the pin in their phones. The pin will be connected to their bank account and the money gets deposited in the account. This will further improve the depositor's access to credit as the bank will not mind giving them a loan when his/her deposits in the bank increase.

Additionally, the government polarizes and patronizes women by setting up separate institutions like 'Women only' banks. Women-only banks are another instance of wanting to treat women 'differently'. One disguises this in many forms, some in garbs of reverence, some as protection, but they are all forms of discrimination that promote gender-based stereotyping[10].

On the contrary, women should have access to regular banks and receive equal treatment in all financial institutions. In addition, limited entitlement in property is creating an additional constraint for women while accessing capital and credit. This works as a hindrance because banks often ask for property/business as mortgage for loans but as women do not inherit the above, receiving loans becomes even more difficult. Hence, legislative reforms including laws to ensure equal rights for both men and women in inheritance is required. Another way forward is the proper implementation of the DRI and priority sector schemes[11]

Financial literacy and inclusion

In India, only 26 per cent of women have an account with a formal financial institution, compared with 46 per cent men[12]. Even though the percentage of women having an account is dismal, this statistic should not be misinterpreted as financial inclusion does not only mean having an account in a bank. Actual financial inclusion means having access to credit. However, in India, per capita credit for women is 80 per cent lower than that for males[13].

When it comes to financial decision-making, 23 per cent, or less than one in every four working women, take their own financial decisions about where and how to invest. Additionally, 36 per cent of the total working women and 53 per cent of the non-working women are merely informed about the investment decisions and play no role in actually taking them[14]. Thus, to make financial literacy a success, there is a need to instill confidence amongst women to make their own financial decisions.

Amongst others, two major constraints hinder economic growth for women. Firstly, women face issues of mobility as decreasing safety (even in urban cities) is creating problems of stepping out of the household. Hence, women are not able to work outside their house, go to banks, etc. Secondly, there are low/limited skill avenues available for women. Skills imparted to women are restricted to tailoring classes and these stereotyping needs to change. One prospective solution to these constraints is E-commerce because with technology, the constraints of intermediaries and mobility diminish. Soft skills need to be promoted over physical work as this will give an advantage to women[15].

Additionally, the lack of financial knowledge is grave in India, especially amongst women. Women do not understand financial markets and do not look beyond investing in gold. Investment is also confused with savings like fixed deposits. Similarly, when it comes to investing in the commodity market, only 18 per cent Indian women invest in stocks and shares, highlighting similar constraints that women face while accessing commodity markets[16].

There are different investment options available for women and all of them have their own pros and cons. For example, bank fixed deposits may not be inflation or tax efficient while capital markets have potential to beat inflation over a longer time period. Even though investing in equities can be volatile, with adequate market knowledge and professional help one can invest in them to earn benefits. In India, gold is a habit which we take up seeing our mothers and grandmothers. Many studies have shown that the compounded annualized growth rate on gold is far poor compared to other asset classes over larger time periods. Also, Indians do not have the tendency to liquidate their gold jewellery with price fluctuations. It does make sense to have 5-10 per cent investment in gold as a hedge against inflation. Nonetheless, the trick is to identify a good investment and hold on to it and not be skewed towards one asset. A proper, diverse asset allocation is the need of the hour as real empowerment means financial empowerment[17].

Investment in Women by the State

There is also a need to investigate what the state can do for women in terms of making gender-transformative investments. Dr. Lekha Chakraborty emphasized that the understanding of investment and gender in the domain of public policy owes a great deal to advocacy by the civil society and UN Women; as, in earlier decades, it was very unusual to talk about gender and budgets as a serious aspect of public policy.

When we look at the roots of public investment in India, it essentially took place in four phases. The first phase was in the year 2000 where the diagnosis for public investment related to women was identified and indicators were put in place. In the second phase, institutional mechanisms were put in place to translate this diagnosis into action. The highest planning body, The Planning Commission, spoke about women as a specific constituency in the Ninth Five-Year Plan (1997-2002). The then Finance Minister also spoke about women in his budget speech, whereas the Ministry of Finance announced recommendations and budgetary allocations in favor of women. Hence, the institutional mechanisms were in place and the knowledge building was complete. But the investment failed to translate into actual policy measures in the third and the fourth stage which is of capacity building and setting up of accountability mechanisms respectively. The fourth phase is increasingly important as during the last few years, budgetary allocation on human expenditure is on the rise but the money is not being effectively spent. For example in the last budget, the Modi government made 14 announcements regarding women. This gave hope to the civil society as this was a marked change than the previous budget. However, the government has not been able to effectively translate these into concrete actions. Therefore, even though designing public investment is important, implementation is equally significant.

In India, the biggest constraint that the government is facing is the belief that deficits are bad and that there is a need to control the deficit. However, the government needs to accept that deficit is good to an extent. The way the government tries to control deficit is also problematic in itself as human development-related investment and expenditures get the biggest cut.

In turn, the government might also have budget constraints while making investments in human development, or specifically, in women. In such a situation, the government should at least invest in security and safety. Security and safety (and other infrastructural amenities) are public goods which will benefit women as infrastructure is gender neutral. Even the Nirbhaya incident was a clear public policy failure which highlighted the significance of investment in infrastructure and its impact on safety and mobility, especially of women, as an important aspect of public investment.

In discussions of policy and investment, every good outcome is equated to economic growth. In most countries (including India), the emphasis of public policy/ investment has the objective of GDP growth. But economic growth alone is clearly not translating into gender sensitive human development. Hence, there is a need for public policy to address human development. In the Indian context, the old and ongoing debate between Jagdish Bhagwati and Amartya Sen about the importance of economic growth versus the importance of human development related expenditure is a case in point.

This leads to a debate between investment in infrastructure for economic growth versus investment related to human development. It can be argued that if the government invests in roads, it is going to help women and poor by making movement and mobility easier. Therefore, is there a need to invest in specific programs related to women and poor? Are gender budgets required? However, it is important to talk about vulnerable groups as these groups are left behind when an economy grows. There is also a need to explore public investment's role in the barriers these vulnerable groups face while accessing public goods. For instance, public investment has been done in the form of schools and hospitals but why are women not able to access hospitals? Why is the girl child not in school? Public policy needs to explore these barriers and un-freedoms and take steps to amend them.

The Justice Verma committee[18] recommendations are a good place to start if one wishes to translate bigger gender commitments into public policy. It is a very comprehensive and a well-written report which has not been translated into actual budgetary commitments.

However, Gender Budgeting is a big canvas and the Centre or the Finance Commission can take limited steps in this regard. But these limited steps are significant for prioritizing gender in the economy. Even in the Finance Commission's inter-governmental transfers, if a variable like gender is incorporated, funds can be transferred to states which are not doing too well on the gender parameter.

Unfortunately, the nature of investment in India has reinforced traditional gender roles rather than providing economic empowerment to women. There is a pressing need to study how women who take microcredit loans repay them. Intra-household gender tensions exist when it comes to repayment as many women take another loan to repay the micro-credit loan (this method is known as Ponzi finance). This, in turn, defeats the purpose of giving micro-credit loans to women in order to save them from the 'bad lemons' as these women go to the same indigenous money lenders (who charge exorbitantly high interest rates) to repay the micro-credit loan. Hence, it is essential to introspect the support systems that can be provided for women through micro credit and if this support can enable them to become micro-entrepreneurs. Overall, micro-finance as a tool for economic empowerment needs to be examined.

What public investment can provide in terms of entitlements to women should also be looked into. In addition, the government need not focus on just public expenditure on women but can also look at entitlement related policy on the tax side. Different states have differential tax treatments for women and this should be rectified[19].

Conclusion and Recommendations

The Forum on 'Women and Investment' touched two different aspects; investment on women and investment by women. Dr. Anushree Sinha feels that it is important to make the government realize that women are just not valuable as partners but are also significant in monetary terms by being valuable growth drivers. This has been reiterated by a Food and Agriculture Organization (FAO) report which shows that if women farmers have the same access as men to productive resources (such as land and fertilizers), agricultural output in developing countries could increase by as much as 2.5 to 4 percent[20]. It has also been assessed that to achieve the optimum rate of economic growth, the rate of capital formation[21] should be above 40%. On the other hand, India does not even come close to 40% as the gross capital formation for the years 2010-11, 2011-12 and 2012-13 were 36.5%, 35.5% and 34.8% of the GDP respectively[22].

As 75% males and just 25% female were economically active in the year 2009-10[23], a huge 'gender dividend' exists in India and this dividend can benefit both the women and the economy. Unfortunately, women are also poor earners as the income received by about 25% of women worker is around 15% (of the total GDP) and 75% male workers receive 85% of the total GDP. One of the primary reasons for this is that most women workers are working in the informal or agriculture sector. Because income is low in these sectors, women workers, in turn, do not possess high amounts of money to drive investments. Therefore, gender barriers for decent work need to be reduced in order to move women from unpaid/informal work to other kinds of work.

There is also a widespread belief that women shy away from investing because they are risk averse. However, recent studies point towards a different direction. Studies by Barasinska et al. (2009) and Tahira and Cazilia (2008) show that there are other endowments (like capital access, access to education, information and financial literacy) which are not positive for women and this, in turn, make women averse to risk. This is where the role of Self Help groups comes in and serves as a point where women get access to information and knowledge[24].

To conclude, the following recommendations were suggested in the discussion forum. First, there is a need to simplify MSME and DRI loan forms as most of the people applying for these loans have low levels of education. Proper implementation of these schemes is also a necessity. Second, bank staff should get proper training in order to work with the poor/marginalized community effectively. Thirdly, banks ought to be directly linked to the poor because studies show that Self-help groups have their own pros and cons. However, Self-help groups which work towards non-financial holistic development of women and not just serve as a vehicle to access finance help women and should be promoted. Fourth, E-commerce needs to be tapped because with technology, the constraints of intermediaries and mobility diminish. Soft skills need to be promoted over physical work as this will give an advantage to women. Fifth, a proper, diverse asset allocation (and not being skewed towards one assert like gold) is the need of the hour. Lastly, if the government has budget constraints and cannot make sufficient investments in human development, investment in infrastructure should be made with a gender lens.

Endnotes

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[2] Indiastat.com, "Workforce Participation Rate by Sex and Sector in India."

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[4] Rs 1 lakh crore bad loans of corporate written off: RBI- Times of India Nov 16, 2013

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[11] Mazher Hussain at GEP Discussion Forum XV, February 2015

[12] "BBC News - India PM Singh opens bank for women". Bbc.co.uk.

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[14] A study done by DSP Black Rock (a leading mutual fund investment company) and Nielsen

[15] Mazher Hussain at GEP Discussion Forum XV, February 2015

[16] Dr. Sarita Bahl, "Investment Behaviour Of Working Women Of Punjab", APJEM Arth Prabhand: A Journal of Economics and Management, Vol.1 Issue 6, September 2012, ISSN 2278 - 0629

[17] Yamini Sood at GEP Discussion Forum XV, February 2015

[18] In the aftermath of the gang rape in Delhi, Justice Verma was appointed Chairperson of a three-member commission tasked with reforming and invigorating anti-rape law. His committee members were Ex-Solicitor General Gopal Subramanian and Justice (Retd.) Leila Seth. The Committee was assisted by a team of young lawyers, law students and academics. The Justice Verma Committee Report deals with sexual crimes at all levels and with the measures needed for prevention as well as punishment of all offences with sexual overtones that are on affront to human dignity. The Report also deals with the construct of gender justice in India and the various obstructions to this.

[19] Dr. Lekha Chakraborty at GEP Discussion Forum XV, February 2015

[20] Food and Agriculture Report, 2011

[21] Capital formation refers to net additions of capital stock such as equipment, buildings and other intermediate goods. A nation uses capital stock in combination with labour to provide services and produce goods; an increase in this capital stock is known as capital formation.

[22] http://pib.nic.in/newsite/PrintRelease.aspx?relid=102903
[23] Report by NCAER on 'Women's work and Demographic dividend'
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Speakers at the Forum

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