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EXECUTIVE SUMMARY

DIGITAL FINANCIAL INCLUSION OF WOMEN IN MSMEs G20 AND INDIA

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EXECUTIVE SUMMARY

Digital financial inclusion (DFI), especially for vulnerable groups like women, youth and micro, small and medium enterprises (MSMEs) is a core topic for discussions in international forums such as the G20. With a growing focus on the adoption of financial technology and digital payments systems by both individuals and businesses, the global digital payments market is expected to grow at an estimated compound annual growth rate (CAGR) of over 13 percent between 2022 and 2026. As access to, and usage of digital financial services increases, it can help promote gender equality by enabling affordable transfers, increasing women's bargaining power in case of social security transfers, increasing women's resilience to financial, economic and health shocks. Yet, there continues to be several gaps in DFI of women, and thus, there has been growing prioritisation of DFI for women at a policy and programmatic level across G20 countries and in the G20 forum.

With India entering the Troika in 2021 and taking over the G20 Presidency for 2023, there is a need for the country to focus on both the achievements and the issues related to DFI of women and MSMEs in India. To participate actively in the discussions, there is need to have a clear understanding of the issue and India's strengths. The Centre and state governments, the Reserve Bank of India (RBI), and National Bank of Agriculture and Rural Development (NABARD) have introduced several schemes and initiatives to facilitate DFI of women and MSMEs. Some of these schemes, such as the *Pradhan Mantri Jan Dhan Yojana* (PMJDY), Stand-Up India, and *Pradhan Mantri MUDRA Yojana* (PMMY), which have provided better access to digital finance to women, can also be showcased in the G20. Yet, there are hardly any survey-based studies on where the country stands, its achievements and gaps in DFI, especially with reference to the MSME women entrepreneurs and employees. This study aims to fill the lacuna.

Objective

The study aims to (a) examine the status of DFI of women in India, with a particular focus on the MSME sector by evaluating their access to financial institutions, usage and adoption of digital financial services, and digital and financial literacy among women; (b) identify the key issues that impede enhancing DFI; and (c) recognise areas within the MSME sector where policies and schemes can be introduced to help India forward the agenda for women's DFI in the G20.

Methodology

The study is based on secondary data analysis and a primary survey of 308 women (86 owners and 222 employees) involved in MSMEs, across eight sectors - (a) food processing, (b) garments and textiles, (c) handicrafts, (d) electronics and engineering, (e) leather, (f) retail, (g) information technology and information technology-enabled services (IT/ITeS), and (h) tourism and hospitality. The survey was administered across four Indian states – Rajasthan, Gujarat, Karnataka and West Bengal. This pilot survey aims to set a framework for a nation-wide large survey, which can help design appropriate policies for DFI of women.

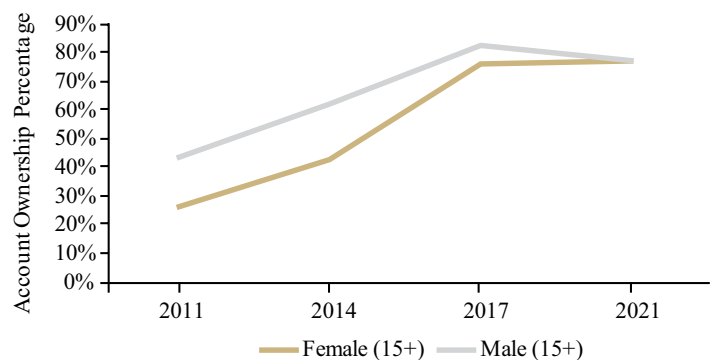
A. Key Findings of Secondary Data

Some of the key findings from the secondary data analysis are as follows:

1. Gender Gap in Financial Inclusion: G20 Countries and India

In 2021, a few G20 countries like Australia, Canada, France, Japan and the United Kingdom (UK) have achieved close to 100 percent financial inclusion of women in certain parameters such as account ownership and use of debit/credit cards. India, in 2021, had an insignificant gender gap in terms of account ownership with around 77 percent of women (almost equal number as men) having an account with a financial institution. This can be attributed to schemes such as the PMJDY. As of August 2022, approximately 55 percent of *Jan Dhan* account holders were women.

Gender Gap in Account Ownership in India has declined in the Last Decade



Source: Extracted and Compiled from World Bank Databank. Available at <https://databank.worldbank.org/source/global-financial-inclusion> (last accessed July 7, 2022).

However, there exists gender gap in terms of utilising the bank accounts and other financial services in the G20 countries, especially in developing countries, including India.

- In India in 2021, 42 percent women had an inactive account compared to only 30 percent men. The difference of 12 percentage points is much higher than the global average of 5 percent point gap.
- In terms of owning a debit/credit card, India had the lowest percentage of women at 20 percent in 2021, among the G20 countries.

2. Digitalization in the G20 Countries & India

Despite rapid digitalization in G20 countries such as India, there is still significant gender gap in access to mobile and internet usage. In case of India, although the percentage of women owning mobile phones increased from 45.9 percent to 54 percent between 2015-16 and 2020-21, almost 70 percent of Indian women had never used the internet.

2.1 Reasons for Gender Gap in Digitalization- Secondary Literature

Some of the major reasons leading to a gender gap in digitalization, in India as evident from the secondary literature include:

- Patriarchal socio-cultural norms which discourage women from owning mobile phones, especially smart phones, or accessing the internet and other digital financial services.
- Lack of financial and digital literacy among women; and infrastructural constraints, especially for women in rural areas.

3. Digital Financial Inclusion

In developed countries such as Australia, Canada, Germany, and Japan, over 95 percent of the women made/received digital payments in both 2017 and 2021. In comparison, less than 50 percent women in developing countries such as India, and Indonesia, used digital payments in 2021.

Digital Financial Inclusion: Across India

The percentage of women making/receiving digital payments increased by only 6 percentage points from 2017 to 2021. There was also a gender gap of 17 percentage points in the use of digital payments between 2018 and 2021.

The gender gap also varies across Indian states, in terms of (a) access to bank accounts; (b) ownership of mobile phones and access to internet; and (c) use of mobile phones and internet for financial transactions in 2019-20.

- Tamil Nadu had the greatest number of women who had a bank account that they themselves used.
- Goa had the highest percentage of women who have a mobile phone that they use themselves, and also for financial transactions.

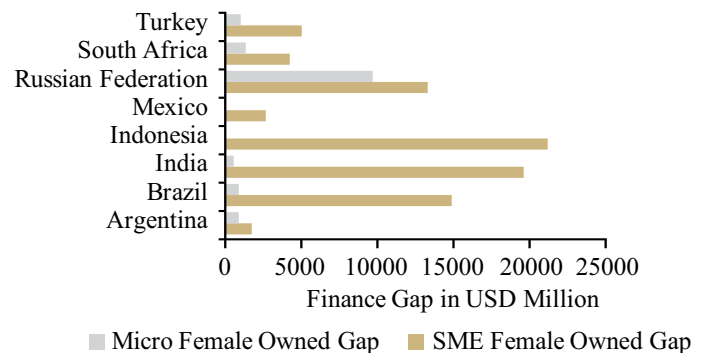
4. DFI of Women in MSMEs in Developing Countries

In select developing economies in the G20, China (54.7 percent), Mexico (29.9 percent) and Argentina (25.6 percent) have the highest percentage of micro-enterprises owned by women. In the case of women-owned SMEs, China (35.3 percent), Mexico (35.2 percent), and South Africa (22.5 percent) were the top three countries in 2018-19.

The Government of India has introduced several schemes, targeting women-entrepreneurs' DFI over the past few years. Schemes such as the PMMY, have extended almost 68 percent of their total sanctioned loans to women. Despite these, India is considerably lagging behind DFI of women in MSMEs, among the developing G20 countries.

- India had the lowest percentage of women owned SMEs at 6.1 percent in 2018-19.
- India had the highest finance gap among developing G20 countries, for women owned SMEs in 2018-19.

Finance Gap for Women-owned Micro Enterprises and Women-owned Small and Medium Enterprises in Select G20 Countries in 2018-19



Source: [https://www.smefinanceforum.org/sites/default/files/MSME%20Finance%20Gap%202018-19%20Update%20\(public\)%20.xlsx](https://www.smefinanceforum.org/sites/default/files/MSME%20Finance%20Gap%202018-19%20Update%20(public)%20.xlsx) (last accessed May 22, 2021)

B. Key Findings of the Primary Survey

The following are the key insights from the primary survey:

1. Account Ownership has Increased

While all MSME owners have at least one account at a commercial bank, 11 percent employees do not have accounts in commercial banks. All respondents in survey reported that they have some form of identity documents like an *Aadhar* card or a voter identity card. Hence, the absence or lack of identity documents is not a hindrance to opening a bank account.

2. Usage of Financial Services is Limited, Especially Among Employees

Even though both MSME owners and employees have accounts in commercial banks, most employees do not avail the financial services provided by the banks.

- Of 197 employees who have a bank account, 26 percent did not have an automated teller machine (ATM)/debit card, and 88.8 percent did not have a credit card.
- 62 percent respondents do not have access to mobile banking, 63 percent have no access to internet banking, and 56.8 percent have no cheque book facility.
- 69 percent of the employees have never done any money transfer using their bank account.

- Though account ownership by women in MSMEs is high, the use of bank account, and other financial services is limited.
- Women MSME owners are more likely to use banking and other financial services than employees due to higher levels of education and awareness.

2.1. Status of Loans and Insurance

MSME women owners have a higher uptake of loans (especially business loans) as well as insurance as compared to the employees.

- 28.4 percent of employees, compared to 61.6 percent owners, have taken at least one loan from a commercial bank.
- 35.1 percent employees have medical insurance, while 89.5 percent owners do. Payment of premium for those who have an insurance is primarily through cash, irrespective of whether the woman is an employee or an owner.

3. Mobile Ownership and Access to Internet is High, Yet DFI is Low

Around 93.7 percent employees and 99 percent of owners own a mobile phone. Amongst those who own a phone, 78.4 percent of women employees and 94.2 percent of owners have a smartphone. Most women also have access to internet on their phones – 80.3 percent employees and 96.5 percent owners have internet on their phone.

However, only 12.8 percent of owners said that they sell their products on e-commerce sites. Majority have joined after 2018, and those that have joined have benefited through wider reach and increased profits.

3.1. Online Financial Transactions is Low

The usage of mobile banking and internet banking is low, particularly amongst employees, even though most women own a mobile phone.

- 66.3 percent MSME owners prefer to do transactions using mobile banking while the remaining 33.7 percent do not.
- 35.6 percent MSME employees prefer to use mobile banking while 52.7 percent do not use mobile banking and prefer to do transactions by visiting the bank physically.

- 76.7 percent MSME owners use internet banking for purchases and transactions compared to only 37.4 percent employees.
- The usage of applications like Paytm, Google Pay, Phone Pe, etc. for making payments and transactions is very low amongst employees.
- Around 67.4 percent owners conduct transactions through such apps compared to only 36.5 percent employees.
- Use of payments bank like Airtel Payments Bank, Jio Payments Bank, etc., is abysmally low, both among employees and owners.

- While younger women are more likely to own a smartphone and make online payments through apps such as Paytm and Google Pay, they are less likely to have a bank account, take a loan, or buy any kind of insurance.

3.2 Reasons for Low Use of Mobile/Internet Banking/Online Financial Transactions

The low usage of mobile banking is primarily due to safety concerns even when they find it relatively easy to use. This is driven by lack of awareness and calls for policy measures to address the security concerns.

- Though 82.8 percent of women do not find mobile banking time consuming and 63.7 percent find it “very easy” to “moderately easy”, 47.4 percent of women still prefer to visit the bank for any transaction and avoid using mobile banking due to security reasons.

4. Cash is still the Preferred Mode of Payment

Though many MSME owners believe that they should opt for digitalization, usage of cash remains prevalent in this sector. The most preferred mode of accepting payments from customers continues to be cash.

However, 68.6 percent MSME owners felt they should engage in a greater proportion of digital transactions since adoption of digital transactions would lead to ease of operation as they are faster and easier.

5. The Key Issue for MSMEs: Lack of Access to Finance

The most common issue faced by the surveyed MSME owners is access to finance, with 60.5 percent MSME owners finding access difficult. Around 47.7 percent owners think that it is even more difficult to obtain a loan if the owner is a woman, showing a hidden perception of gender bias.

6. Government Policy and Support

The MSME owners want government support in terms of simplified procedures for women entrepreneurs to obtain loans, reduced paper work, faster approvals, more time for repayment and infrastructure upgradation programmes.

Despite the government introducing several schemes to promote access to finance for women entrepreneurs, there is a lack

of awareness among women in the MSME sector. Further information of the schemes is not available online resulting in lower number of women benefitting from the programmes. Lack of use of digital tools and digital financial literacy is also leading to information asymmetry.

6.1. Support for COVID-19 Impact

In our survey, 88.4 percent owners reported that their business had been adversely affected. Government support has been very limited – only 5.8 percent of them have received help from the government during the pandemic.

Conclusion

- Enhancing knowledge and information of available financial packages and schemes and better monitoring and evaluation of the existing schemes will help in DFI.
- There is need to shift MSME owners from cash-based transactions and this will lead to employees getting wages in their accounts.
- Training can help to address the digital financial literacy gaps.
- One of the key survey findings is that the issue of financial inclusion worsens when it comes to MSME

women entrepreneurs. Therefore, in addition to focused policymaking, there is also an urgent need for the government and non-profit organisations to step in and help spread awareness among women entrepreneurs about the benefits of DFI and help build the right eco-system for such inclusion by providing funds, training, infrastructure and skilled manpower.

- There is need for on-boarding of owner into e-commerce platforms through training and capacity building.

As India progresses towards its G20 Presidency in 2023, the country needs targeted policies in place to address the existing gender gap in DFI and drive the agenda forward in G20. This requires carrying out a large-scale, nationally representative survey of MSME enterprises to understand their issues, both at the employer and employee level, and across different sectors. There are examples of successful schemes and initiatives, which India can showcase in the G20. India must also encourage seminars and workshops in collaboration with stakeholders across the world on research and development to evaluate the status of DFI across countries and the impact of COVID-19 on DFI of women and come up with toolkits to enable DFI of women in post-pandemic recovery plans for G20.

India will take over the G20 Presidency in the year 2023, and digital financial inclusion for vulnerable groups like women is a key topic for discussions in the G20. Several initiatives are taken by the Indian government and organisations like NABARD, to promote digital financial inclusion for women. Yet, there are hardly any survey-based studies on where the country stands, its achievements and gaps in digital financial inclusion. This report aims to fill the lacuna.

The report, through a primary survey of women engaged in the MSME sector across select Indian states, identifies the status and barriers to digital financial inclusion. It aims to address the gaps on advancing women's access, ownership, and participation in the digital economy and suggest areas where there is scope for further research. It makes policy recommendations on reform requirements and suggests interventions needed to advance India's strategies and options in the G20 framework for digital financial inclusion. This report, based on a primary survey and secondary data analysis, will be beneficial for readers working on financial, digital and MSME sectors. It will help India to have the right policies to attain the UN Sustainable Development Goals.



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