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## Like flowers and chocolates

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*Setting up women-only banks overlooks the reasons for their exclusion*

The women-only bank mentioned in the finance minister's budget speech is like flowers and chocolates — a sweet thought but just as unsubstantial. Financial exclusion of women is a real problem. It deserves far greater effort than sops like a women-only bank. Such a bank also runs counter to the logic of mainstreaming, rather than ghettoising, gender issues.

It is assumed that a women-only bank will have a positive gender impact by ensuring financial inclusion for women and increasing their incomes through better access to credit. While both are important goals, it is necessary to examine whether the policy instrument being offered can ensure the desired outcome.

The India Human Development Survey (IHDS) of 2005, carried out by the National Council of Applied Economic Research and the University of Maryland, found that 60 per cent of households had no bank account, but the financial exclusion of women was even greater. More than 80 per cent of them went without bank accounts. This exclusion is even more pronounced in rural India — barely 13 per cent of women in rural areas have bank accounts, compared to 28 per cent in urban areas. These findings would urge the case for financial inclusion, but the setting up of separate banks for women seems to overlook the reasons for exclusion.

A complex set of institutional, cultural and psychological factors intersect in the financial exclusion of women. They may find it harder to provide proof of residence and identity, since homes and utility bills are often in the name of the male head of the household; IHDS data shows that only 15 per cent of women have their names on ownership or rental papers of the household. The lack of independent income may make it difficult for women to meet minimum deposit requirements; only 19 per cent of women between the ages of 15 and 59 earn any cash income. Cultural restrictions on physical movement may reduce women's ability to get to bank branches; just 34 per cent of women are able to go alone to a local health centre. Thus, ensuring financial inclusion for women requires a different way of doing business than our traditional banking system.

However, it is not clear that a separate, women-run, women-focused bank is going to be sufficient to address this vast challenge. The IHDS documents that rural women who live within five kilometres of a bank branch are 50 per cent more likely to have a bank account than those who live farther away. Proximity to banking services matters far more to women than to men. A new nationwide bank may be less effective than enhancing the existing banking services to ensure ease of access. Some interesting experiments are already in place. These may provide models for expanding access. The Bank of Baroda, for example, has set up a large number of low-cost, nano-branches, each with only two staff members in a 100-200 square foot space, usually located within the panchayat office. An Aadhar-enabled payment system managed by business correspondents is another possible innovation to ensure doorstep delivery of banking services. A focus on incorporating women within the existing public and private banking systems can harness vast energies in them. A brand new women-only bank may not have these resources to tap. Compare the market valuation of the State Bank of India, at Rs 1,47,000 crore, and the promised Rs 1,000-crore investment for the women-only bank. The difference in scale is evident. Given the importance of setting up

close-to-home banking, this size difference also translates into a vast difference in potential effectiveness.

Women's exclusion from the formal banking system also results in their being kept out of formal credit markets, particularly since they often need relatively small loans. A women-only bank would, by definition, increase their access to credit but it may well focus on loans that are smaller than those offered by other public sector banks. This may increase the costs of loan servicing, but that is a relatively minor issue. It is the effectiveness of this credit that deserves greater scrutiny. Research by the economist Abhijit Banerjee and his colleagues at the MIT Poverty Action Lab in Hyderabad shows that microcredit by itself has virtually no impact on poverty, health, education and other welfare outcomes. However, it does result in the expansion of business investments and may have beneficial impacts on income in the long term. Unfortunately, women entrepreneurs have needs that go far beyond credit. Success stories in women's banking, like the Grameen Bank and BRAC in Bangladesh and the Sewa Bank in India, supplement credit programmes with mentoring, training and social mobilisation. Any banking service that emphasises microcredit but does not include social mobilisation is not particularly effective, particularly for women.

The cost of servicing small loans, combined with the need for social mobilisation, throws up challenges. An evaluation of the cost-effectiveness of the Grameen Bank in 2003 noted that operating costs for the bank were subsidised by the amount of \$20 per person per year of membership and formed 22 per cent of the borrowing per year — covered mostly through grants from donors. Thus, we need to be prepared for the high cost of a system that offers a variety of services, of which normal banking and credit facilities are just a small part. Such a bank will need to have its operating

costs subsidised on a routine basis. Unless the programming and financing of a nationwide women-only bank is geared to meet this challenge, its ultimate utility remains doubtful.

A better option may be to focus on setting up special cells within large public sector banks, where profits generated by other banking programmes may be used to cross-subsidise a women-focused credit programme as well as social mobilisation.

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Views are personal

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