Ranee Jayamaha: Access to finance and financial inclusion for women

Speech by Dr Ranee Jayamaha, Deputy Governor of the Central Bank of Sri Lanka, at the Centre for Women's Research (CENWOR), Colombo, 4 April 2008.

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Let me start by giving a general definition for access to finance and financial inclusion before assessing the status of women in these two areas, and then discuss the areas of focus in enhancing financial inclusion for women.

What is access to finance? In simple terms, this means to provide an environment in which people, in general, have accesses to the formal financial system, through the use of different financial products at affordable prices. The access could be to any formal financial institution, market, and payment system or to a financial instrument, including savings, loans, remittances and insurance services.

What is financial inclusion? This means the process of facilitating those sectors and segments of the population that are outside, to become a part of the formal financial system and enrolling individuals or groups into the formal financial sector.

Key entry points for financial inclusion

These could be through:

(a) Direct loans or banking facilities to the targeted vulnerable communities or groups;

(b) Facilitation of economic activity in a particular geographical area of operations or location;

(c) Development of local or national infrastructure to enable a particular type of business activity, which could then be practiced or performed by a group or groups which can include women; and

(d) Providing an enabling environment and/or enhancements for such economic activity to take place. The enabling environment includes laws, regulations, taxation, skills development, duty waivers, subsidies, etc. In this context, tax concessions and duty waivers given to make enterprises be "financially inclusive" are often forgotten. In fact, due to lack of awareness, enhancement of access to finance or financial inclusion that has already taken place in various sectors, and the enabling environment that has been created, are taken for granted with no value attached to them.

Women's contribution to economic development

Let me now deal with the importance of women's contribution to the economic development in Sri Lanka and assess whether financial inclusion of, and access to finance by women are on par with the contribution they make.

Women in Sri Lanka have been engaged in economic activities over centuries of history primarily through employment. Due to low productivity and inadequate incomes in the agricultural sector, women in small farm families have moved from unpaid family labour to other occupations, in particular, to garment factories and employment abroad. According to employment by economic activity, as at the 3rd quarter of 2007, of the total occupation, women accounted for 35% and 26%, respectively, in agriculture and manufacturing. During 2003-2007 of the estimated worker contracts abroad, on average, 65% have been females. Although there has been some impact following the removal of export quotas for garments under the multi-fiber agreement in 2005, the important point is that, in terms of employment, the female labour force has not suffered significantly.

Women's contribution to growth has been much more significant in the recent decades, given their enhanced involvement as garment and apparel factory workers, domestic helpers in the Middle East and other destinations, and tea plantation workers. In terms of foreign exchange inflows during 2007, garments and apparel have accounted for USD 3.3mn, worker remittances for USD 2.5mn and tea exports for USD 1.0mn. Around 80% of exports have been dependent largely on the fortunes of the garments industry in which over 90 per cent of employees are women. The 3 export processing zones, i.e. Katunayake, Biyagama and Koggala, the increasing number of industrial estates located in the different parts of the country, and around 150 rural garment factories, provide employment opportunities for young women between 18-30 years. Although precise statistics are not available to indicate the participation of women or their contribution to enhance foreign exchange inflows, undoubtedly, women's contribution has been very significant. Unfortunately, not only has the contribution of women not been highlighted or fully appreciated, but there has also been no focused attention to enhance access to finance by women or to increase financial inclusion of women.

Of the approximately 20mn population in Sri Lanka, 50% are females. The same ratio is found in all provinces according to latest data. For 3 consecutive years, the country has achieved a growth over 6% and a growth rate of 6.8% has been recorded for 2007. However, women's contribution in this 6.8% is hidden. As at the end of 2007, we have exceeded a per capita income of US $ 1,600. The system of National Accounts or other systems that set standards in the compilation of National Income have recognized the need for separating women's contribution to GDP but, so far, there is no acceptable formula for achieving this. Similarly, the gender budgeting that started in Australia and South Africa has not been followed or continued by many countries. Sri Lanka too recognized that there is a need to separately account for gender contribution in the budget. In that regard, some of us managed to include a couple of paragraphs announcing the gender budgeting policy in the 1999 Budget, but there has been no follow up since then.

Drawbacks in financial inclusion and uneven ground situation

The banking and financial sector in the country must be strong for financial inclusion to take place. Our banking sector has been showing advancement and growth. The financial system is stable and resilient. The financial institutions are committed to engage in social responsibility related work as well, or to reach out to vulnerable and disadvantaged groups, of which women occupy an important place. Despite the advancement of the financial sector and the resilience of the system as a whole, we are still unable to appreciate or criticize its commitment towards financial inclusion of and access to finance by women, due to lack of disaggregated data from banks and financial institutions. This, I believe, is the biggest drawback in initiating policy responses to remedy the deficiencies in financial inclusion of women.

The absence of balanced regional or provincial growth is another important drawback in enhancing financial inclusion of women. GDP growth has been uneven throughout the post independent period. Growth in the Western Province has been around 50%, while all other provinces accounted for the balance. This uneven growth has resulted in a skewed income distribution, varying degree of poverty, marginalization and unemployment issues, as well as financial exclusion in the other regions of the country. However, the significant growth in the Western Province has resulted in notable enhancement in access to finance and financial inclusion.

Table 1

Banking Density as at 31.12.2007

(Provisional)

	District	No. of Banking Outlets (All Banks) *	Popula-tion ('00,000)	Banking Density	Popula-tion per Branch	Province	Banking Density	Population per Branch
1	Colombo	415	24.56	16.90	5,918.07	Western	11.88	8,417.40
2	Gampaha	174	21.40	8.13	12,298.85			
3	Kalutara	89	11.11	8.01	12,483.15			
4	Matale	38	4.77	7.97	12,552.63	Central	6.93	14,438.89
5	Kandy	96	13.80	6.96	14,375.00			
6	Nuwara Eliya	46	7.42	6.20	16,130.43			
7	Galle	78	10.52	7.41	13,487.18	Southern	8.19	12,207.07
8	Matara	70	8.13	8.61	11,614.29			
9	Hambantota	50	5.52	9.06	11,040.00			
10	Jaffna	40	5.99	6.68	14,975.00	Northern	5.26	19,000.00
11	Killinochchi	4	1.46	2.74	36,500.00			
12	Mullativu	4	1.47	2.72	36,750.00			
13	Mannar	5	1.01	4.95	20,200.00			
14	Vavuniya	8	1.66	4.82	20,750.00			
15	Ampara	42	6.15	6.83	14,642.86	Eastern	5.36	18,662.50
16	Batticaloa	20	5.23	3.82	26,150.00			
17	Trincomalee	18	3.55	5.07	19,722.22			
18	Kurunegala	101	15.24	6.63	15,089.11	North Western	6.77	14,779.22
19	Puttalam	53	7.52	7.05	14,188.68			
20	Anuradhapura	66	8.01	8.24	12,136.36	North Central	8.36	11,960.00
21	Polonnaruwa	34	3.95	8.61	11,617.65			
22	Badulla	71	8.50	8.35	11,971.83	Uva	8.31	12,028.30
23	Monaragala	35	4.25	8.24	12,142.86			
24	Kegalle	68	8.02	8.48	11,794.12	Sabaragamuwa	7.42	13,485.71
25	Ratnapura	72	10.86	6.63	15,083.33			
Total		**1,697**	**200.10**	**8.48**	**11,791.40**		**8.48**	**11,791.40**

** Branches only*

Source: Central Bank of Sri Lanka

Table I shows that as at the end of 2007, there were 678 banking outlets in the Western Province out of a total branch network of 1,697 in the whole country. Accordingly, 8,417 persons have been served by a bank branch in the Western Province, while the banking density in the Western Province has been 11.89. 50% of people are within one mile from a bank and with ATM facilities within a radius of 2-3 miles. In contrast, according to latest available data, the Northern and Eastern provinces accounted for a share of 2.9% and 4.7% of the GDP during 2006. These two provinces had 61 and 80 branches, respectively, serving 19,000 and 18,662 persons per branch. The banking density in the two districts was at a low level of 5.26 and 5.36, respectively. Given the conflict in these two areas, the limited branch network, outreach and lower banking density are understandable. It is now time to enhance financial inclusion in the recently liberated Eastern Province. What action is needed and how quickly it can be implemented are challenging tasks, but financial inclusion, in general, and for women, in particular, is an area that should be given priority.

The main credit needs among people in low growth areas and with low incomes, in particular, women are:

- access to small, unsecured, fixed term loans in cash;
- quick access to credit without lengthy or intrusive application procedures;
- affordable weekly payments with no hidden or extra charges;
- automatic repayment arrangements, such as deduction from benefit or home visits by a collector; and
- opportunities for making late payments or rescheduling loans without incurring charges when temporary financial problems occur.

If anyone of these or a combination of these factors tend to deny access to financial institutions or to products, that is known as financial exclusion, which is often reflected as a symptom of poverty as well as a cause. As much as we are interested in financial inclusion, it is also necessary to reduce financial exclusion to a minimum, which is also a policy challenge. These are two sides of the same coin.

Table II

Access to Finance – 2006

Indicator **Access to Finance**	**Bangla-desh**	**India**	**Nepal**	Pakis-tan	**Sri Lanka**	**Bench-mark**
Demographic branch penetration (branches per 100,000 people)	4.73	6.37	1.73	4.96	7.69	9-28
Demographic ATM penetration (ATMs per 100,000 people)	0.29	1.93	0.28	1.25	5.67	39-167
Deposit accounts per 1,000 people	255.23	442.87	110.40	171.14	1117.82	976-2418
Loan accounts per 1,000 people	61.11	78.00	10.83	31.78	364.22	248-776
Geographic branch penetration (branches per 1000 sq. km.)	44.53	23.46	2.97	9.67	15.81	1-57
Geographic ATM penetration (ATMs per 1000 sq. km.)	2.71	7.11	0.48	2.44	11.65	3-252

Source: ***Getting Finance in South Asia Phase IV – 2008*** *World Bank*

Visible areas of financial exclusion

Financial exclusion and denial of access to credit exists in two clear areas, in particular, in formal credit markets and the payment system. According to available data, in Sri Lanka, at least 40 per cent of the farm households do not have access to formal sources of credit or bank accounts. The reliability of this number depends on the type of survey done and the source of information. Nevertheless, it is a significant number to work with. Comparatively, however, we are ahead in the region as 51 per cent of about 89 million farm households in India have no access to formal or informal sources of credit while 73 per cent have no access to formal sources of credit. Although both in India and Sri Lanka, the shares of non-institutional sources of credit have decreased compared to the 1970's and 1980's, there still remains a significant gap in accessing the formal financial sector by men and women in rural areas and the unemployed in the urban areas. Among many reasons for financial exclusion of women from the formal system, however, literacy barriers and language barriers are becoming less important factors. It is primarily the approach of banks and financial institutions and the strenuous processes and procedures adopted by them, which matters more in financial exclusion.

The second important area of financial exclusion is the denial of access to efficient and safe payment systems. This area of activity is unknown to many and it has been taken for granted. Among the main payment instruments, cash is straightforward. However, the other payment instruments, such as cheques, bank drafts, electronic payments, card payments etc., can have delays in both clearing and settlement, which can cause problems to those who receive money through these payment modes. This is common to both men and women. Following the efforts made by the Central Bank of Sri Lanka, cheques/bank drafts are now being cleared on t+1 or t+2 in most parts of the country, and that has clearly enhanced access to finance through retail transactions. The receipt of remittances through non-bank sources or various money transfer systems has also been enhanced following countrywide IT and payment system advancements. In more recent years, therefore, financial exclusion in Sri Lanka has been greatly reduced.

Initiatives for financial inclusion of women

There are some initiatives taken, not only by Sri Lanka, but also in the South Asian region towards financial inclusion. By 2005, micro finance institutions covered at least 35mn of some 270mn people in the South Asian region and met around 15% of the overall credit requirements of low-income families. In Sri Lanka, the coverage is particularly high at 60%. The high outreach in Sri Lanka is based on an extensive network of community-based organizations that receive considerable government subsidies.

Almost all rural financial institutions in Sri Lanka have provided easy access to women, particularly in the villages, estates and among fishing communities. Financial institutions that are directly involved in this area, are the licensed commercial banks, licensed specialized banks, micro finance institutions, cooperative rural banks, the SANASA Thrift and Credit Cooperative Movement, SEEDS and other non-governmental organizations.

Let us examine the extent to which financial inclusion for women has taken place through the existing institutional network and assess the deficiencies and gaps, although we may not be able to do a comprehensive analysis. The participation of women in credit programs as at end December 2007 is given in the following table:

Table III

Women's participation in the Credit Programmes as at December 2007

	Institution	No. of Loans			Value Rs. mn	% Received by Women
		Male	Female	Total		
1.	Regional Development Banks (RDBs)	50,804	43,277	94,081	1,614	46.00
2.	Licensed Commercial Banks (LCBs)	N.A.*	N.A.*	N.A.*	N.A.*	
3.	Sanasa Development Bank	321,687	246,896	568,583	13,000	43.42
	Thrift & Credit Societies	36,726	85,696	122,422	2,816	70.00
4.	Cooperative Rural Banks (CRBs)	316,142	135,490	451,632	8,999.0	30.00
5.	Poverty Alleviation Microfinance Project (PAMP)	12,604	39,388	51,992	1,058.4	75.76
6.	Small Farmers & Landless Credit Project (SFLCP)	669	8,681	9,350	244.5	92.84
7.	MFIs – SEEDS (SKS)	11,540	23,081	34,621	1,986	66.67

NA – refers to the non-availability of disaggregated data

Source: Regional Development Dept., Central Bank of Sri Lanka

As shown in the table, the Small Farmers and Landless Credit Project (SFLCP), Poverty Alleviation Micro Finance Project (PAMP) and SANASA Thrift and Credit Societies have been successful in providing loan facilities at 93%, 76% and 70%, respectively, for women. Approximately 8,681 women have obtained financial and credit facilities under the SFLCP revolving funds loan scheme, while 39,388 women have benefited under PAMP as at the end of 2007. Again, due to lack of statistics and information, it is difficult to assess the ratio of loans granted exclusively for women by commercial banks. Among others, the Sarvodaya

(SEEDS) has been in the forefront, reporting a total loan value of Rs 1.9 billion at the end of 2007, of which 67% has been for women borrowers.

As shown in Table IV, exclusivity conditions are not necessarily applicable to Sri Lanka given the large-scale membership of women in the widespread banking arm of the Cooperative Societies, i.e. about 1,500 cooperative rural banks and 7,400 Sanasa Societies, both providing banking and financial services. In effect, in the micro finance delivery chain, Sri Lanka's Cooperative Societies and Sanasa Societies appear to be very significant.

Table IV

Extent of microfinance outreach in South Asia

Country	**Population (millions)**	**Poverty Ratio %**	**Poor Families (millions)**	**MF Clients (millions)**	**MF Poverty Outreach %**	**MF Coverage of Poor Families %**	**Borrowing Clients, % of population**
Afghanistan	22	55	2	0.12	50	3	-
Bangladesh	143	50	13	16	50	62	13.1
India	1100	30	60	15	35	9	1.1
Nepal	26	35	1.6	0.5	45	14	1.5
Pakistan	155	33	8.5	0.58	35	2	-
Sri Lanka	20	25	1	2.5	25	63	4.3

Source: ***Getting Finance in South Asia Phase IV – 2008*** *World Bank Publication*

Women still feature significantly in the vulnerable groups and it is imperative to include them in the facilities offered by the formal financial sector. However, in terms of micro finance coverage of poor families, Sri Lanka covers 63 families, which is the highest in South Asia. Similarly, women account for 4.3% of the borrowing clients. Sri Lanka at 4.3% is below Bangladesh, which is at 13%, but way above others. We, in Sri Lanka, had high hopes of enhancing financial inclusion of women through the Millennium Development Goals, which would have provided a smooth path for financial inclusion for women. However, even after several rounds of discussions, the program has not got off the ground as yet.

Recent initiatives taken by the Central Bank and the banking and financial sector

As in India, banks and financial institutions in Sri Lanka, at the grass root levels, have been advised to engage in basic banking with "no frills", or to entertain minimum balances and reduce charges where possible to enhance access to finance and financial inclusion. The recent efforts taken by the Central Bank of Sri Lanka as well as some banking institutions have enhanced access to finance and financial inclusion. They are:

- **10% mandatory credit to agriculture by banking sector;**
- **Agency banking through mobile phones:** Permission has been granted to commercial banks to provide facilities using telecommunication services to appoint a number of agents to enable on the spot banking facilities such as depositing and

withdrawing money and receiving remittances abroad through these agents located throughout the country;

- **Upgrading of post offices to provide banking and financial services**: The HSBC Bank has established links with post offices which are considered to be grass root financial institutions and providing access to finance in terms of drawing their pensions, monthly allowances and, where possible, remittances from abroad. This initiative has helped to enhance financial inclusion as post offices are patronized by women as well;
- **Setting up of a credit and debt management council by the Central Bank**: to provide advice to individuals and companies on their credit problems and denial of access to finance, the Central Bank of Sri Lanka has initiated this process; and
- **Preparation of a Micro Finance Regulatory Act by the Central Bank of Sri Lanka**: One of the impediments in Sri Lanka is that the system does not enable an effective monitoring system through a regulatory framework, which monitors progress of women accessing credit and their financial inclusion. To remedy the problem, the Central Bank is now working on a Micro Finance Act, through which micro finance institutions will be brought under a prudential regulatory framework.

Need for a comprehensive program to increase financial inclusion of women

It is important to note that initiatives cannot be taken and implemented by the Government alone. Government could perhaps be the main motivator and driver. The promotion of women entrepreneurial activities and financial inclusion has to be elevated to a policy debate. There should be a serious commitment by banks and financial institutions, and their business development sections should be proactive and ensure that credit delivery to women engaged in relevant sectors is given priority.

In addition to the major infrastructure development projects, many village level enterprises and projects are coming up within a short period of time. For example, the newly liberated Eastern Province has potential for new opportunities for growth. Crop agriculture, the dairy industry, fishing industry and livestock are three key areas, which can make a significant contribution to growth. Women's participation in each of these activities is estimated to be high and there are clear opportunities for women, seeking banking and financial services.

It is time to prepare a comprehensive plan and that should have new entry points to accommodate women's financial requirements. Some of the new entry points include the following:

- **Information technology application and usage:** The phenomenal growth in the telecommunication industry, particularly in the mobile telephone sector, could serve as the main platform to enhance the delivery of credit to women and girls. Sri Lanka is fast moving towards a technology savvy population. However, many women and girls still do not use computers and newer payment modes available through mobile phones and cards. In India and Bangladesh, many disadvantaged and vulnerable groups, women and children in particular, have benefited immensely from information technology, which has enabled such groups to have better understanding of prices in the market and business processes. The Government's Information, Communication and Technology (ICT) Program should ensure that more and more women are included so that women can use the ICT entry point to enhance financial inclusion.
- **Introduce products/supply chain focused credit facilities and payment instruments:** Introduction of appropriate credit facilities as well as payment systems and instruments in commodity markets and production chains/supply chains seems to be new entry points to improve access to finance and financial inclusion. Women

in agriculture can be driven towards a debt trap when prices collapse at the time of harvesting. Although it is common to both men and women in agriculture, losing regular incomes would be a bigger blow to women than men. There can be inland bills, goods receipt vouchers and other instruments that are discountable during such periods. This is a responsibility for banks and financial institutions.

Let me sum up the substance in a few sentences. More than anything, there is an urgency on the part of CENWOR or Marga or any other institution to conduct research, surveys and statistical analyses to assess the status of enhancement of access to credit and financial inclusion among women in Sri Lanka. It is hard to come to conclusions without adequate and reliable statistics or even to initiate policy action to fill in gaps that exist in this area. It is equally important for the relevant Ministry or Ministries and other public and private organizations to coordinate and prepare a strategic plan to spearhead the campaign of financial inclusion for women and suggest policy and operational measures as they deem fit. This initiative too should be supported by well-recognized research institutions like CENWOR. I hope the deliberations during the next few days would lead the way to prepare an action plan or road map to take forward the financial inclusion for women initiative.

Thank you.