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Entrepreneurs bond with yellow metal: Gold fills a very important gap in India's financial system

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MUMBAI: [Aneesha Binu](#) long craved the financial independence enjoyed by millions of young [women](#) like her in India's big cities and towns. But geography proved to be a major impediment to her dreams of creating entrepreneurial history in her native village, located in a remote part of Kerala's Idukki district.

Being based in Idukki, known more for its rugged mountains and forests that make up 97% of its landmass, meant that economic opportunities were, predictably, few. Salaried jobs were hard to come by, leaving for the city was not an option, and her family's financial situation was such that there was no spare cash available as capital to fund her entrepreneurial dreams. The formal financial system could have helped, but it wasn't easy negotiating with banks and cajoling them to part with money to fund her wish to start a beauty parlour in the village together with her friend Preethi Joy.

But 30-year-old Binu was determined to pursue her dream. She and Joy took the leap of faith that their jewellery could have use beyond the more ornamental, embarking on a course of action Indian women have taken for centuries - using [gold](#) as a reliable source of capital.

"We took a loan by pledging our gold to start a venture," said Binu in Malayalam.

Binu walked up to the local branch of a [financier](#), kept the jewellery as collateral to secure a loan of 3 lakh and with it, launched the business. And there has been no looking back from then on. "It is convenient to borrow from the neighbouring finance company because the process is very fast," she says.

And she is hardly alone.

"I have been taking gold loan for the last seven years," says MR Anilkumar, who runs an advertising unit in Thrissur, also in Kerala. "Unlike banks where there are a lot of procedures, the process here is fast. Since these are sudden requirements, I don't bother much about the [interest rate](#)," he adds.

Dependence on traditional forms of finance

Binu and [Anilkumar](#) are among the lakhs of India's middle-class people whose entrepreneurial

ambitions have for long been - and continue to be - funded by unorganised lenders taking gold as collateral.

Despite four decades after nationalisation of the banking system and the entry of a bunch of new private banks since economic liberalisation that kicked off in 1991, more than half the population is still dependent on traditional forms of finance.

A recent study by [Manappuram Finance](#), a top lender against gold that has been at the receiving end of a harsh tightening of regulations, showed that 30% of overall loans were for productive activities and not all were used for consumption.

The non-traditional way of [funding](#) is dependent on collateral, mainly gold, and the yellow metal has over the years funded millions of businesses, including shops and small enterprises, reinforcing its allure and buttressing its reputation as a store of value and, consequently, demand.

But for India's regulators and policymakers, the proverbial 'what is sauce for the goose is sauce for the gander' does not quite hold true. The practice of gold loans has come under attack from them, with policymakers in the [finance ministry](#) to the Reserve [Bank of India](#) (RBI) looking at ways to curb the seemingly insatiable demand for the metal.

Officials blame the weakness of the Indian [rupee](#) on the deep desire among people to own gold and are contemplating ways to control its consumption.

India is the top consumer of gold in the world, and some \$60 billion worth of the metal was imported into the country last year. The government, in a bid to curb demand, raised the import duty on the precious metal to 4% from 2%. Although demand for gold appeared faltering at 153 tonnes in the June quarter, it rose to touch 223 tonnes in the September quarter.

Source : http://articles.economictimes.indiatimes.com/2012-11-30/news/35483307_1_gold-loan-manappuram-finance-financial-system
