

Women and credit

Access to credit for micro and small female entrepreneurs, including collective enterprises in India

Unpacking the demand and supply side—determinants, experiences, and credit journey of micro and small female entrepreneurs

June 2023



About the research

MSC undertook this research in partnership with SEWA to understand the successes and failures in the journey of women as they seek credit. The research uncovers key determinants of credit access as seen by wMSMEs and financial service providers.



The Gender Equality and Social Inclusion practice at MSC provides gender-centric solutions to practitioners and policymakers. Focus sectors include financial services, agriculture, skills, climate change and health and nutrition.

SEWA Bharat is a federation of membership-based organizations of informal women workers. It is committed to strengthen the movement of women empowerment in the informal economy by highlighting their issues at the national level and building its member organizations' capacity to empower female workers.



Our vision is to enhance gender equality in the medium to long term by enhancing women's agency. We work to improve women's social security, financial health, economic participation, and representation.

SEWA's financial inclusion programs work toward enabling marginalized women who have been left behind to become financially independent and empowered. These programs address the different needs of these women throughout their lifecycle, for instance, personal savings or credit among others.

SEWA overcomes access and information barriers that women face in finance: 1) by organizing financial literacy training for women, 2) by creating institutions and services to improves women's access to finance.



Over 25 years, we have developed niche expertise in equity-centered research and analysis, managing and evaluating gender-mainstreaming initiatives, capacity-building and training, and program design for gender equality.

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Glossary

BC	Business Correspondent
CE	Collective Enterprises
CIBIL	Credit Information Bureau of India Limited
COO	Chief Operating Officer
COVID	Coronavirus disease
DGM	Deputy General Manager
EDII	Entrepreneurship Development Institute of India
EMI	Equated monthly installment
FGD	Focus group discussions
FSP	Financial service provider
GESI	Gender equality and social inclusion
GOI	Government of India
GRM	Grievance redressal mechanism
IE	Individual Enterprises (wMSMEs + mMSMEs)
ITR	Income tax return
JLG	Joint Liability Groups
KYC	Know your customer
LIC	Life Insurance Corporation

mMSME	Male-led micro, small and medium enterprises
MSME	Micro, Small and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-government organization
NRLM/SRLM	National/State Rural Livelihood Mission
PAN	Personal Account Number
PI	Personal interview
PSB	Public Sector Bank
SEWA	Self-Employed Women's Association
SHG	Self-help group
SKDRDP	Shri Kshetra Dharmasthala Rural Development Project
SFB	Small Finance Bank
SHPI	Self Help Promoting Institutions
TAT	Turnaround time
TRIFED	Tribal Cooperative Marketing Development Federation of India
VAW	Violence against Women
wCE	Women-led collective enterprises
wMSME	Women-led Micro, Small and Medium enterprises

Key definitions used in the study

BC agent	Business Correspondent is an extended arm of the Bank Branch who is providing Financial and Banking services to the customers in unbanked and underbanked areas.
BCNM	Business Correspondent Network Managers are the intermediaries appointed by banks to recruit and manage BC agents.
Bridge institutions	In this study “Bridge institutions” are defined as entities that offer credit along with credit-plus services to women. They offer memberships, credit-plus services like training, business support services, and serve as a bridge between banks and individual users and members. They are typically associated with their borrowers for a long time and follow a gender-intentional or gender-transformative approach in lending to their borrowers as applicable to the sample selected in this study.
Cooperative banks	<u>Banks</u> registered under the provisions of State Cooperative Societies Act of the State concerned and are regulated by the Reserve Bank of India.
Credit ready	Credit ready enterprises are those that have a viable business model, documents to prove their business identity, profitability, regular business records, and a good credit history (from the bank’s perspective).
Credit-unwilling	Credit-unwilling enterprises are those that do not want to take credit due to various social and economic factors.
Credit-willing	Credit-willing enterprises are those that need credit and are also willing and motivated to approach the financial service provider and go through the application process.
Main stream banks	Main stream banks include public and private scheduled commercial banks.
MFI	Microfinance institutions are entities that provide collateral free small ticket loans to low income households.
NBFC	NBFCs comprise government/ public/ private limited companies which provide niche financing to various sectors of the economy, ranging from real estate and infrastructure to agriculture and micro loans, thereby supplementing bank credit.
Parent institution	A parent institution is defined in this study as an organization that supports in setting up and nurturing a collective enterprise.
SFB	Small Finance Banks are government authorized entities aimed at offering basic banking facilities including lending and taking deposits to unserved & underserved areas.
SHPI	Self Help Promoting Institution (SHPI) are entities that organize, nurture and enables credit linkage of SHGs with banks.
SRLM	State Rural Livelihood Missions are the special purpose vehicles to implement Government of India’s poverty alleviation program called NRLM*.

Executive Summary 1/2

This research unpacks the successes and failures in the journey of women borrowers as they seek credit. The research uncovers critical determinants of credit access as seen by women entrepreneurs and financial service providers. We summarize the key demand side findings of the study below:

Key insights from the Demand side

- Credit requirement of 70% of the wMSMEs varies between INR 2-5 lakhs (USD 2,434 - 6,085) which remains unserved. [Unlike mMSMEs](#), it is difficult for wMSMEs to get collateral-free credit above INR 2 lakhs (USD 2,434). (Reference slide [14](#))
- 44.4% of women-led collective enterprises (CEs) have credit requirements ranging from INR 4 to 10 lakhs (USD 4,868 - 12,170). 33.3% of CEs have credit requirements of INR 50L to 15Cr (USD 60,850 - 1,825,500). 45% of CEs report their parent institutions as the most critical source of funds. (Reference slides [14](#), [16](#))
- wMSMEs report seeking credit from mainstream banks as inconvenient and time-consuming, with many credit seekers dropping out midway. CE's report banks as approachable, however, the process, speed, and delivery of loans from mainstream banks remain tedious and time-consuming. (Reference slides [15](#), [16](#))
- Women credit seekers are not a homogenous segment, the study identifies 5 dominant personas of credit-willing and credit-unwilling wMSMEs. (Reference slides [20](#), [21](#), [22](#), [23](#), [24](#), [25](#), [26](#))
- 30% of the individual enterprises (IEs) and 22.2% of the women-led collective enterprises (CEs) lacked credit readiness even for small ticket-size loans due to the lack of one or many prerequisites for availing credit from banks. (Reference slide [27](#))
- 22.5% of IEs and 44.5% of CE's lacked the willingness to apply for credit due to five leading reasons- motivation, requirement, confidence, convenience, and efforts required to access formal credit. (Reference slide [29](#))

Assistance from bridge institutions plays a critical role

- “Bridge Institutions” play a critical role in facilitating women’s access to credit. They affect many stages in wMSME’s access to credit and have the capacity to change credit outcomes. (Reference slide [30](#))
- All wMSMEs need support to access credit. Support from bridge institutions opens the door for seamless access to credit and prepares wMSMEs for higher ticket-size credit. (Reference slide [31](#))
- On average, the credit access timeline of wMSMEs with access to bridge institutions is reduced by 30-40 days. (Reference slide [32](#))
- Long-term association with bridge institutions also helps women to build sustainable incomes, accumulate assets, and graduate from extreme poverty. (Reference slide [33](#))

Executive Summary 2/2

This research unpacks the successes and failures in the journey of women borrowers as they seek credit. The research uncovers key determinants of credit access as seen by women entrepreneurs and financial service providers. We summarize the key supply side findings of the study below:

Key insights from the supply side

- Banks provide standard loan products only and do not have customization to cater to different business needs. (Reference slide [37](#))
- Mainstream banks perceive women as customer segments limited to priority sector lending, government schemes, and micro-lending portfolios. (Reference slide [37](#))
- All bankers perceive women as more reliable borrowers. (Reference slides [38](#), [39](#))
- Banks shared they follow a “gender-neutral” approach. They do not actively target women borrowers or promote women-specific schemes and products. (Reference slide [37](#))
- Bankers shared that 75-80% of their women borrowers remain concentrated in small size unsecured loans segment. (Reference slide [38](#))
- Lack of accepted collaterals, documents, and guarantors are the key reasons for loan application rejections. (Reference slide [39](#))
- Almost all supply-side interviewees share that educating female borrowers to maintain digital records of business cashflows, good credit records, stocks and inventory records, and financial and digital capacity-building is essential to increase loan approval rates. (Reference slide [38](#))

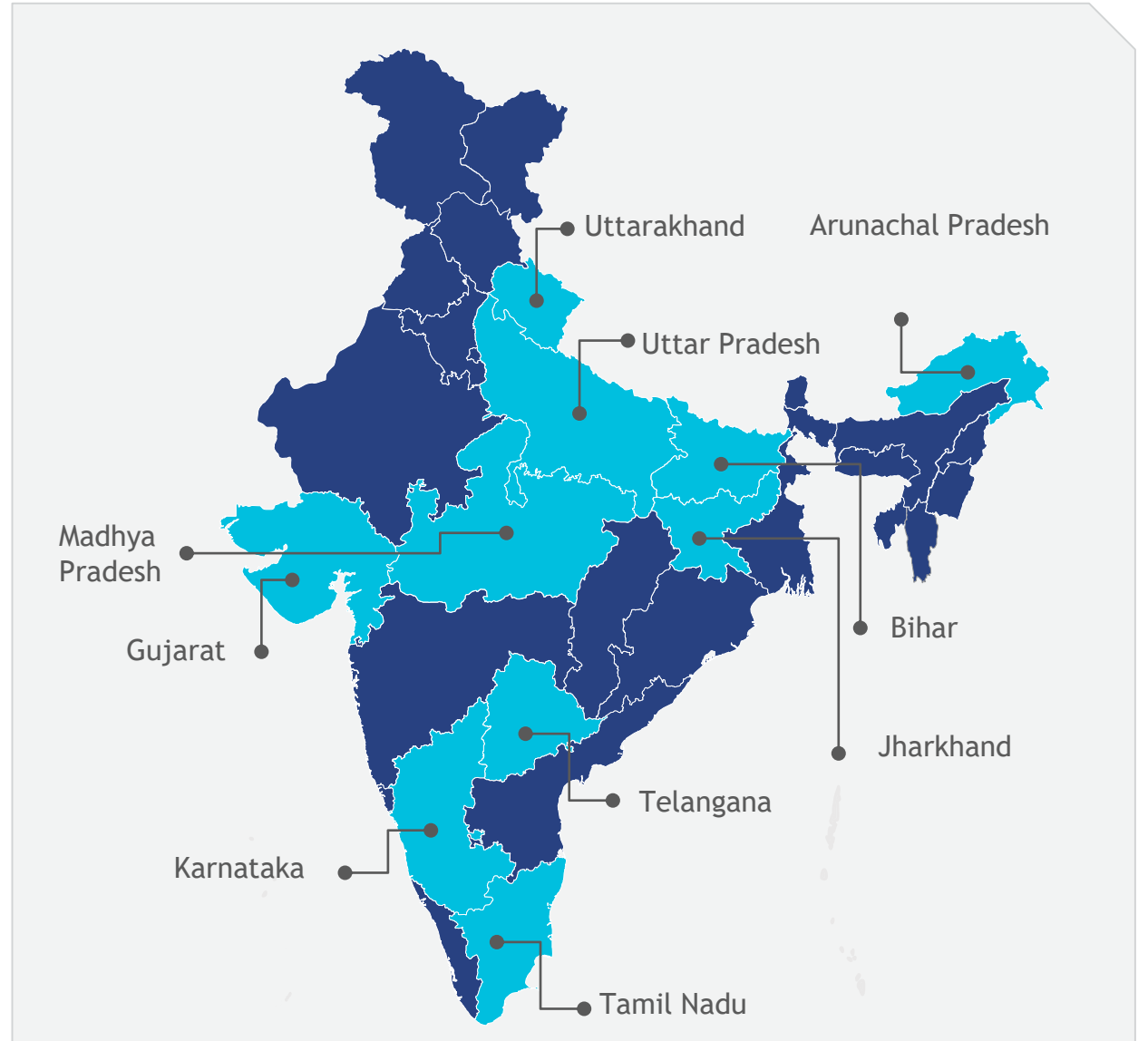
What do bridge institutions do differently?

- Bridge institutions have a better understanding of women customers and thereby focus more on women’s lifecycle financial needs. (Reference slides [40](#), [41](#), [42](#))
- Bridge institutions customize the credit appraisal process and make it more convenient for female borrowers. (Reference slide [46](#))
- We find that all bridge institutions deploy community-embedded credit appraisal systems to mitigate credit risk. (Reference slides [46](#), [47](#))
- The study documents some novel methods bridge institutions adopt to distribute and mitigate credit risk. (Reference slides [44](#), [45](#))
- Some bridge institutions deploy a large women workforce at the last mile who serve as the first point of contact between borrowers and the bridge institution. (Reference slides [46](#), [47](#))

Research methodology

The study used in-depth personal interviews (PIs) and FGDs with individual enterprises and members of women-led collective enterprises to capture their credit journey. This is supplemented by supply-side interviews with banks, credit cooperatives, and other financial service providers to understand their experience of disbursing credit to micro and small female entrepreneurs.

- ▶ We spoke to 66 stakeholders from 10 states.
- ▶ These included 40 individual enterprises and 10 collective enterprises, and 16 mid- and senior-level officers at banks, small finance banks, co-operatives, and other credit-providing institutions, and supply-side stakeholders.



Access to credit to wMSMEs - macro view and the problems (1/2)

The credit needs of wMSMEs remain largely unmet. A study by IFC estimated that the total annual finance requirement of women-owned enterprises in India is at least INR 1.95 trillion (USD 23.73 billion). A recent standing committee on Finance report estimated that the overall credit gap in the MSME sector is worth INR 20-25 trillion (USD 243.4 - 304.2 billion).



I do need a loan, but how will I run around so much and who will look after my shop?

- Parul, Entrepreneur

01

Demand-supply gap in finance for wMSMEs

- Nearly 70% of wMSMEs' finance needs are unserved or underserved.
- Of the INR ~1.95 trillion (USD 23.73 billion) credit requirement, formal sources supply only INR 0.58 trillion (USD 6.93 billion).
- Formal financial institutions fail to meet around 60 % of the credit demand from microenterprises and 70% of the credit demand from small enterprises.



1.37 trillion (USD 16.67 billion) is the unmet finance gap for wMSMEs

02

The gender gap in access to finance for wMSMEs

- IFC estimates that 90% of female entrepreneurs in India have not availed of finance from formal financial institutions.
- Only 5.2% of the total credit outstanding that all PSBs provided to MSMEs belongs to wMSMEs.
- 43% of female entrepreneurs against 26% of male entrepreneurs cited an inability to access credit as a reason for discontinuing their businesses.



Only 17% of wMSMEs know of financial support initiatives

Access to credit to wMSMEs - macro view and the problems (2/2)



The gender gap in access to credit

Credit received by women comprises only 27% of the deposits they contribute, while the credit received by men is 52% of their deposits



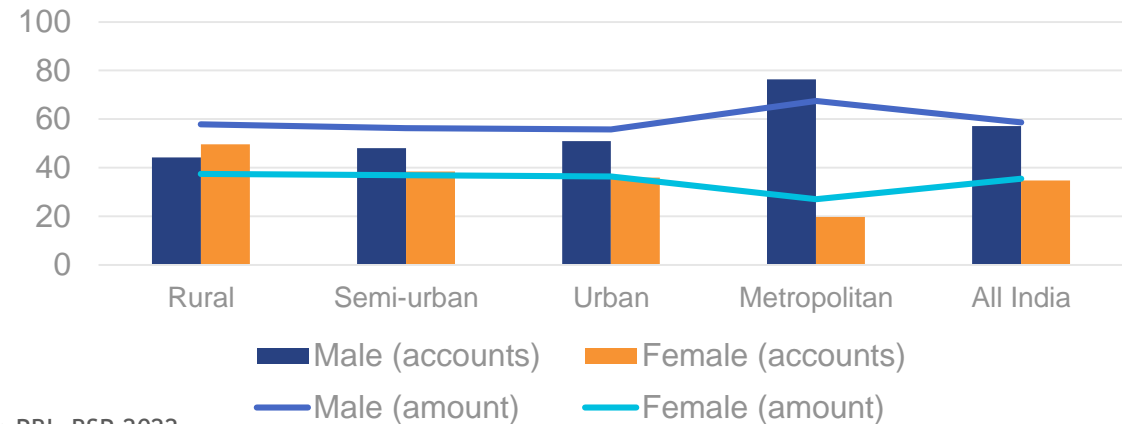
10.2%

As of March 2022, the share of individual female borrowers in total credit was 10.2% in terms of the amount and 30.6% in the number of credit accounts.



35.5%

As of March 2022, a further disaggregated look at the small borrower accounts also tells the same story. Men account for a larger share of the outstanding amount (58.7%) than women (35.5%).



Source: RBI, BSR 2022



Financial institutions' skepticism toward wMSMEs

Around 97.5% of wMSMEs in India are microenterprises and operate in the informal sector. Financial institutions regard microenterprises as high-risk



~57%

Mudra loan accounts of female borrowers comprise ~57% of the total accounts in the *Shishu* category (up to INR 50,000 [USD 608.5]).



79%

The 6th Indian Economic Census indicates that 79% of wMSMEs used their own capital and only 1.1% borrowed from financial institutions.



68%






IFC report states that banks sanction only 68% of the applied credit amount.

Sources: [MSC-RBIH whitepaper](#); [BSR reports of RBI](#); [IFC report](#); [MUDRA Annual report 2021-22](#)

**Demographic and
business profile of
respondents;
experiences in accessing
credit**

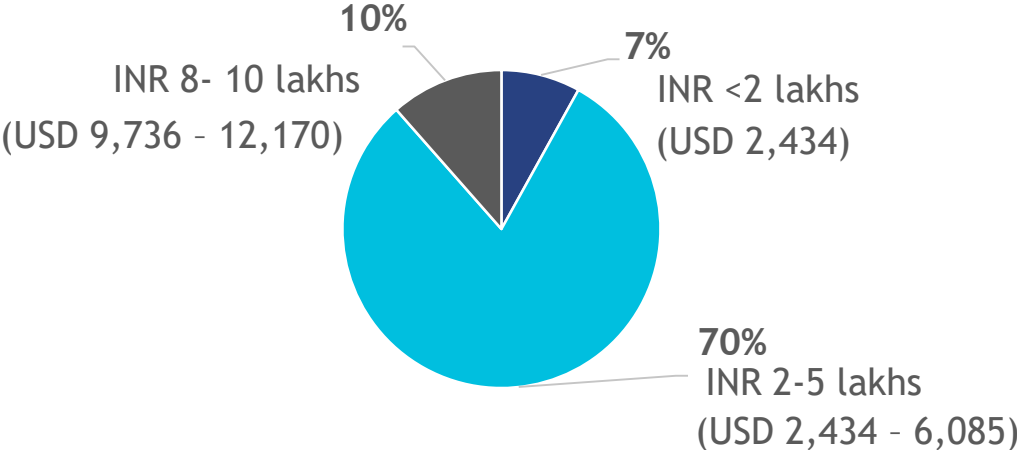


Aspirations, business challenges and documentation status of individual enterprises (IEs) and collective enterprises (CEs)

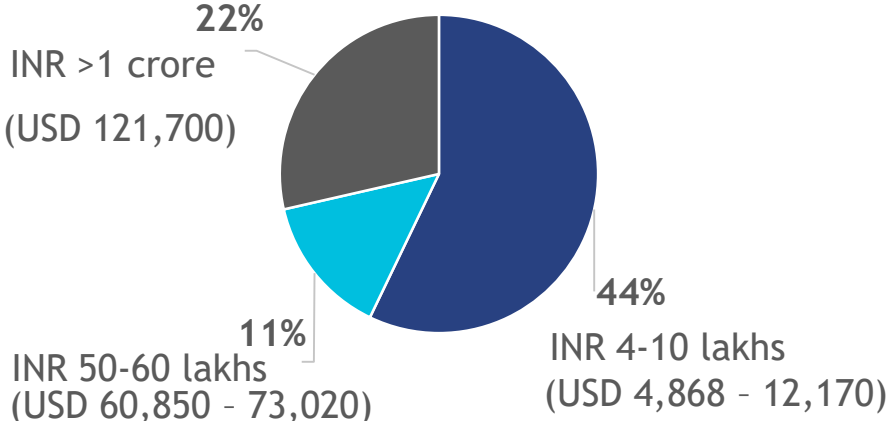
	Individual enterprises (IEs) 	Collective enterprises (CEs) 
Aspirations 	<ul style="list-style-type: none"> Half of the IEs aspire to expand their business The remaining IEs aspire to diversify, improve variety of inventory or stock, and increase market linkages 	<ul style="list-style-type: none"> More than half of CEs aspire to expand their business The remaining CEs wish to expand market linkages and aspire to create sustainable livelihoods for their shareholders and employees
Challenges 	<ul style="list-style-type: none"> IEs reported access to credit as a key challenge IEs stated that they struggled with steady access to market linkages Others cite challenges linked to the high cost of inputs and business operations Women reported work pressure on domestic and business front and lack of digital literacy 	<ul style="list-style-type: none"> CEs reported a lack of capital for improving business operations is a key challenge <p>Other challenges include:</p> <ol style="list-style-type: none"> Lack of human resources and leadership Market disruptions and decreased profits High cost of raw materials and other inputs
Documentation 	<ul style="list-style-type: none"> Half of the IEs reported having at least one kind of business document, for example, <i>panchayat</i> business license or <i>Udyam-Aadhaar</i> registration No IE had all the business documents 	<ul style="list-style-type: none"> All the collectives have business registration Collectives reported having PAN card, P&L statements, tax registrations, business incorporation cards, trade licenses, etc

Collective enterprises require higher ticket size of credit as compared to individual enterprises

Individual enterprises (IEs)



Collective enterprises (CEs)



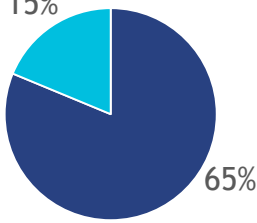
Current credit requirement




- 70% wMSMEs reported credit requirement of INR 2-5 lakhs (USD 2,434 - 6,085)
- 10% of wMSMEs require credit of INR 8-10 lakhs (USD 9,736 - 12,170)
- 7% wMSMEs require credit worth less than INR 2 lakhs (USD 2,434)
- Most need credit for working capital and business expansion

- Nearly half of CEs reported credit requirement of INR 4-10 lakhs (USD 4,868 - 12,170)
- 1 CE reported credit requirement of more than INR 50 lakhs (USD 60,850)
- Large FPOs reported high credit requirement of up to 15 crore (USD 1,825,500)
- Most require credit for working capital and business expansion

Individual enterprises get loans at higher interest and do not have good user experience with banks

Sources	<ul style="list-style-type: none"> ➤ Banks ➤ Group loans ➤ SHPIs 	<ul style="list-style-type: none"> ➤ Cooperative banks ➤ Informal sources or moneylenders 	<ul style="list-style-type: none"> ➤ Most wMSMEs took business related group loans from MFIs, SFBs, SHPIs, and cooperatives ➤ wMSMEs that took higher ticket-sized formal loans borrowed mostly for housing needs and were backed by collateral
Quantum, interest rate, and collateral	 <p>Quantum of loan (in INR):</p> <ul style="list-style-type: none"> ➤ ~65% of IEs availed of loans worth less than INR <math><3</math> lakhs (USD 3,651) ➤ ~15%* of IEs availed of loans worth INR 3-5 lakhs (USD 3,651 - 6,085) ➤ No wMSME took a business loan worth more than INR 5 lakhs (USD 6,085) 	<p>Collateral:</p> <ul style="list-style-type: none"> ➤ wMSMEs took collateral-free loans of small ticket size ➤ Collaterals accepted are fixed assets, gold, bank deposits, stock or inventory, purchase bills 	<p>Interest rate: 6-23% Rates vary as per the kind of institution</p>
Credit experience	<ul style="list-style-type: none"> ➤ Most wMSMEs stated they have not tried to engage with mainstream banks, as it is tedious and time-consuming ➤ All wMSMEs that take group loans and those associated with some bridge institutions reported a convenient experience in access to credit 	<p>Among women who have had a smooth credit journey with their existing lender both formal and informal, 85% were willing to stick with the same lender for future needs as well</p>	

Factors while choosing a credit source




- Interest rate
- Repayment flexibility
- Ease of getting the loan
- Past experience

Success factors in securing a loan



- Availability of complete documentation and guarantors
- Assistance from a support system
- Business and banking vintage
- Business profitability

Reasons for not securing a loan




- Poor or no documentation
- Lack of guarantor
- Data entry errors committed by the bank
- Lack of support from bank staff

Collective enterprises get comparatively cheaper loans than individual enterprises, but they too depend more on non-bank credit sources


Sources	<ul style="list-style-type: none"> ➤ Banks ➤ NBFCs ➤ Alternate sources of finance, NGOs ➤ Savings ➤ Parent or supporting organization 	<ul style="list-style-type: none"> ➤ 33% of collective enterprises took loans from banks ➤ 22% took loans from cooperatives and SHPIs ➤ 45% received funds from parent organizations, such as JEEViKA, and TNSRLM
Quantum, interest rate, and collateral	<ul style="list-style-type: none"> ➤ Around 67% of collective enterprises took loans worth less than INR 10 lakhs (USD 12,170), of which half of the collectives took loans worth less than INR 5 lakhs (USD 6,085) ➤ Some collective enterprises received the loan per collective member instead of on behalf of the collective as a whole 	<p>Interest rate: 0-15% Collateral-free</p>
Credit experience	<p>Most collective enterprises mentioned banks as approachable. However, the process, speed, and delivery of loans from mainstream banks remain tedious and time-consuming.</p>	<ul style="list-style-type: none"> ➤ Nearly half the collective enterprises reported a good experience in their credit journey. Yet, not all of them took loans from mainstream banks

Factors while choosing a credit source




- Interest rate
- Repayment schedules
- Handholding support
- Past experience

Success factors in securing a loan



- Complete documentation
- Association with a parent support institutions
- Banking and business vintage

Reasons for not securing a loan



- Lack of business readiness to take on debt
- Lack of requisite documentation
- Lack of steady profits

Female entrepreneurs' irrespective of running an individual enterprise or being a part of a collective enterprise, do not have a good user experience at the bank

Female entrepreneurs and collectives face multiple challenges while accessing formal loans



“

I noticed that I was paying more interest than what was pre-decided so I went to the bank to resolve my grievance. But the bank officials said complicated things, which I did not understand, and then they asked me to go back.

- Gayatri Devi, Varanasi

”



“

The process of getting a loan from banks is time-consuming, which discourages us from reaching out to banks for credit. In our business of perishable goods, we need timely credit.

- Poonam, Ahmedabad

”



“

I want a loan, but I do not know how to go about the loan application process. I am scared that I may not have all the documents they would ask for.

- Sravani, Telangana

”

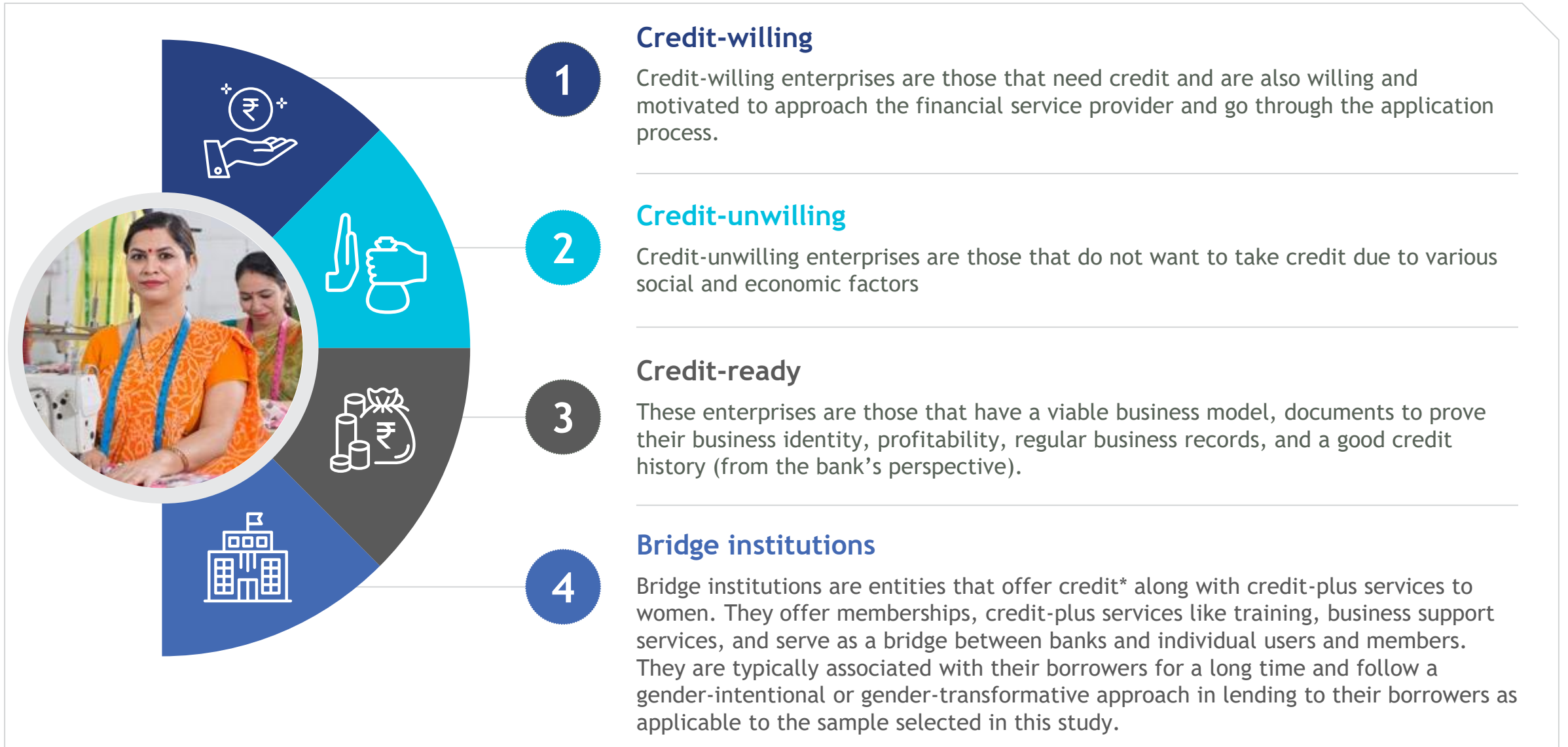


FGD in Varanasi



**Key takeaways and insights
from the demand side**

Readers note: Definitions to understand the demand-side insights



Five key user personas emerge from the study (1/2)

We identify three types of credit-willing user personas and two types of credit-unwilling user personas.



Category of users

01 Credit-willing



wMSMEs that intend to avail credit for business

Credit-willing personas have three subtypes:

- ▶ Enthusiast
- ▶ Aspirant
- ▶ Beneficiary

Definition:

Credit-willing enterprises are those that need credit and are also willing and motivated to approach the financial service provider (FSP) and go through the application process.

02 Credit-unwilling



wMSMEs that are unwilling to avail credit for business

Credit-unwilling personas have two subtypes:

- ▶ Averse
- ▶ Aloof

Definition:

Credit-unwilling enterprises are those that do not want to take credit due to various social and economic factors

Five key user personas emerge from the study (2/2)

Three types of “credit-willing” user personas

Enthusiast

These wMSMEs want to avail of credit and are credit-ready as they also have the minimum documentation to fulfill the bank’s requirements for small ticket-size loans for IEs. They are also willing to go through the FSPs / bank’s application process.

Aspirant

These wMSMEs are primarily those who want to avail of credit. However, they lack complete documentation, suitable businesses plans and guarantors, or various factors that will help them avail of formal credit above INR 2 lakhs (USD 2,434)

Beneficiary

These wMSMEs can access small-size credit from SHGs, MFIs or SFBs and cooperatives due to their group memberships. They have support from a strong bridge institution that helps them avail of regular access to small ticket-size credit

Two types of “credit-unwilling” user personas

Averse

These wMSMEs have the required documents and guarantors but do not want to take credit due to factors such as:

- Social norms that discourage taking on “debt”
- Lack of confidence in the ability to repay loans—this may arise due to a lack of control in household decision-making and also a lack of a viable, profitable business model.
- Availability of strong support from family members or relatives in case of credit need

Aloof

These wMSMEs lack the required documents and credit history to apply for loans and do not want to take credit due to factors like:

- Fear of internal and external backlash on defaulting on loans
- Lack of business profits and a viable business model
- Lack of support systems, as many are single-women enterprises

All credit-ready and credit-willing wMSMEs may not successfully avail credit



Name	Enthusiast
Enterprise type	Formal
Ownership type	Single or joint
Enterprise size	Micro
Sector	Manufacturing

Credit readiness

Credit willingness

Access to bridge institutions

Reasons for success in availing credit

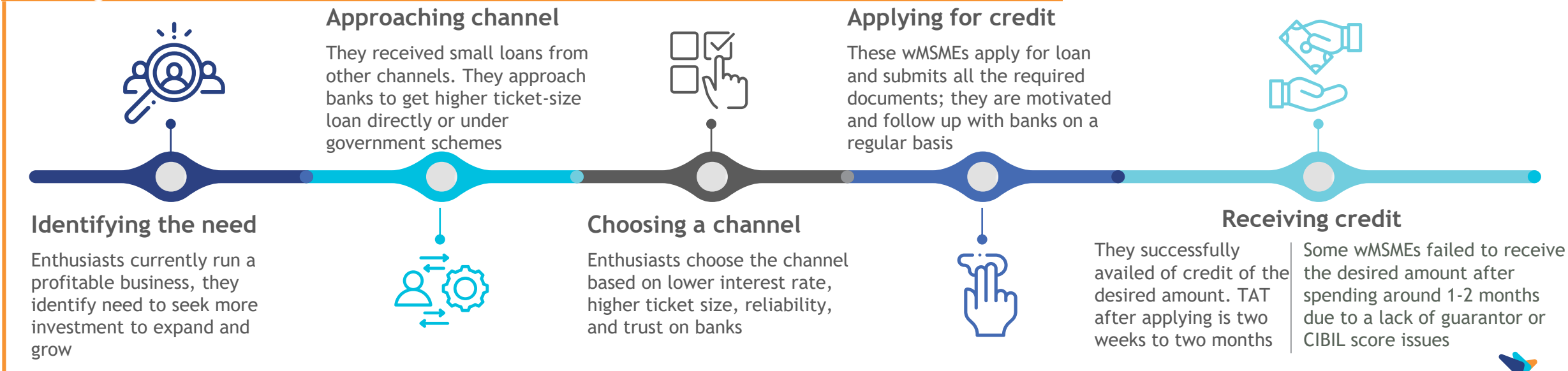
- Has business proof, documents and collateral, business model
- Bank officials find the business viable and profit-making

Credit amount requirement and purpose

Business loan worth INR 5-20 lakhs (USD 6,085 - 24,340) to:

- Expand the business
- Purchase new production space and increase the inventory size

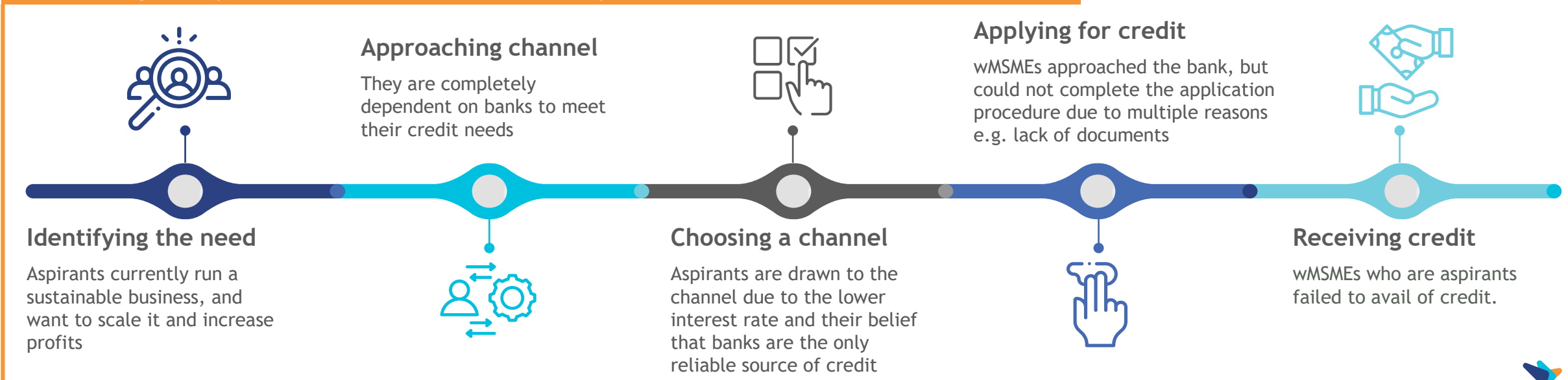
User credit journey: Enthusiasts are credit ready however they also experience uncertainty in accessing credit



Some wMSMEs are not credit-ready but are willing to take credit for business

	Name	Aspirant	Credit readiness ❌	Reasons for failure in availing credit <ul style="list-style-type: none"> ❖ Lack of support from bank officials and lack access to bridge institutions ❖ Insufficient documents and collaterals ❖ Confident to repay, but unsure if banks consider them credit-ready
	Enterprise type	Formal or informal		
	Ownership type	Single	Credit willingness ✅	
	Enterprise size	Micro		
	Sector	Manufacturing	Access to bridge institutions ❌	

User credit journey: wMSMEs need to be credit ready to avail formal loan



Access to bridge institutions make wMSMEs credit ready and credit willing



Name	Beneficiary
Enterprise type	Informal
Ownership type	Single
Enterprise size	Micro
Sector	Agri and allied

 **Credit readiness** 

 **Credit willingness** 

 **Access to bridge institutions** 

Reasons for success in availing credit

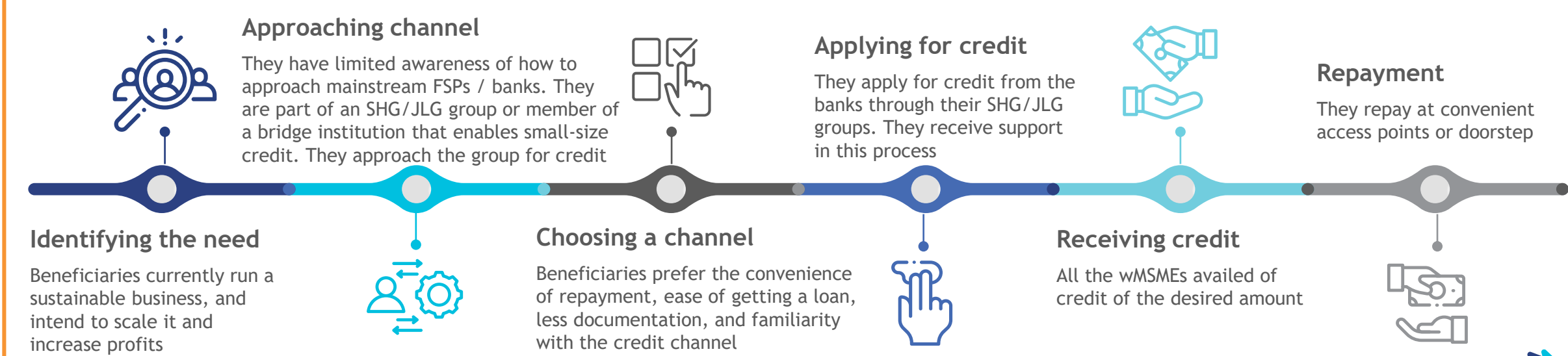
- Strong support from bridge institutions like NGOs, SHGs, Collectives, Banks, Cooperative societies, SHPIs
- External support structures induce credit willingness and provide support to make them credit ready

Credit amount requirement and purpose


Business loan worth INR 20,000 - 3.5 lakhs (USD 243.4 - 4,259.5) to:

- Business diversification to reduce dependency on one product or service

User credit journey: wMSMEs with handholding have high success rate of availing loans



Some wMSMEs are credit ready but not willing to avail credit

	Name	Averse
	Enterprise type	Formal or informal
	Ownership type	Single
	Enterprise size	Micro
	Sector	Manufacturing

 **Credit readiness** 

 **Credit willingness** 

 **Access to bridge institutions** 

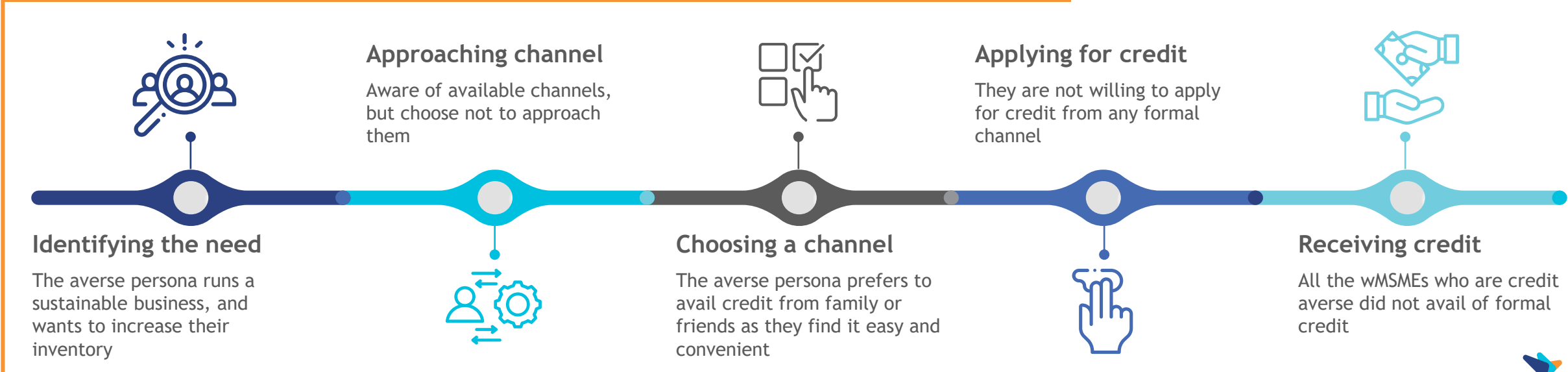
Reasons for not availing credit

- Strong support from family and friends in case of credit requirements
- Lack of motivation or ambition to scale the business
- Unwilling to approach any formal credit channel due to their perceptions

Credit amount requirement and purpose

- Capital requirement worth 1-5 lakhs (USD 1,217 - 6,085) to:
- Diversify the product
 - Increase the inventory

User credit journey: Not all wMSMEs perceive credit as beneficial



Some wMSMEs are credit unwilling due to lack of credit readiness



Name	Aaloo
Enterprise type	Informal
Ownership type	Single or family-owned
Enterprise size	Micro
Sector	Retail

 **Credit readiness** 

 **Credit willingness** 

 **Access to bridge institutions** 

Reasons for not availing credit

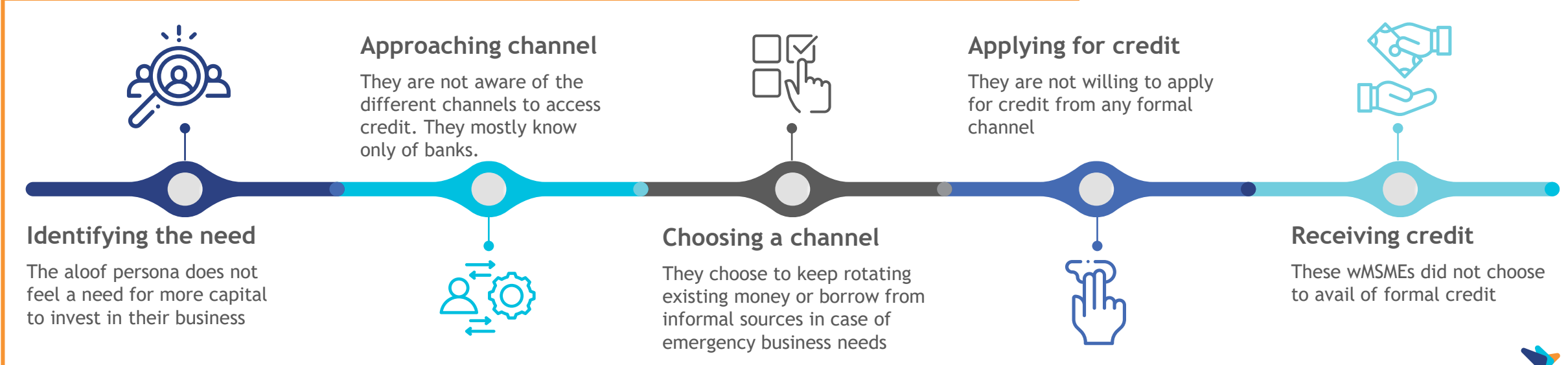
- ❖ Lacks awareness and financial literacy to avail of formal loans
- ❖ Does not trust financial institutions, does not put savings in a savings account
- ❖ Extremely socially and economically vulnerable
- ❖ Some of them are single women and single parents

Credit amount requirement and purpose

INR 15,000-25,000 (USD 182.5 - 304.2) business loan for:

- ❖ Increase inventory
- ❖ Personal expenses

User credit journey: wMSMEs who run sustenance enterprises lack awareness on credit



30% of the individual enterprises (IEs) and 22.2% of the collective enterprises (CEs) lacked credit readiness even for small ticket-size loans due to the lack of one or many of these prerequisites

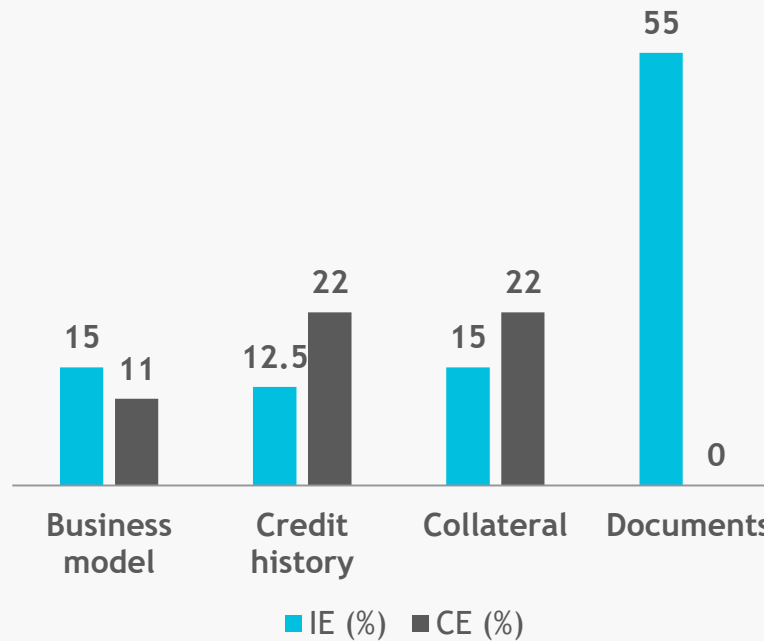
Business model

- ▶ Proof of concept
- ▶ Business plan for the loan amount required
- ▶ Business vintage or adequate business experience
- ▶ Annual turnover and profitability of the business

Documents

- ▶ Residential proof
- ▶ Business registrations
- ▶ Purchase bills
- ▶ Personal identification documents for KYC
- ▶ Income tax returns of 2-3 years
- ▶ Proof of inventory

Reasons for lack of credit readiness



IE - Individual enterprise; CE - Collective enterprise

Collateral

- ▶ Gold
- ▶ House papers
- ▶ Purchase bills
- ▶ Other fixed assets
- ▶ Deposits in the bank
- ▶ Guarantor:
 - Family member as a guarantor
 - Other than a family member
 - Institutions or social organizations

Credit history

- ▶ Credit history
- ▶ Bank statements
- ▶ Timely repayments
- ▶ No defaults and no bad loans
- ▶ Ongoing loans and liabilities

Documents includes proof of business continuity and personal identity. Collaterals includes instruments that can be utilized by the FSP to mitigate the lending risk and understand the paying capacity of wMSMEs.

wMSMEs struggle to get any non-collateral-based credit worth more than INR 2 lakhs (USD 2,434)



- ▶ A wMSME can typically avail of a non-collateral loan only up to INR 1.5 lakhs (USD 1,825.5)
- ▶ For all the higher ticket-size loans worth more than INR 1.5 lakhs (USD 1,825.5), depositing some collateral is mandatory and needs one external guarantor. This is especially difficult for women who do not own any productive assets like property and single women who may not have access to family male guarantors
- ▶ Female entrepreneurs who are affiliated or associated with bridge institutions seek higher ticket-size loans usually ranging from INR 3 to 5 lakhs (USD 3,651 - 6,085) but remain underserved
- ▶ Banks that lend higher ticket size loans for business purposes to wMSMEs consider CIBIL score, business vintage, banking vintage, and strong collateral



wMSMEs need guarantors for all loans

- ▶ Most bankers we spoke with mentioned that two guarantors are mandatory. Sometimes wMSMEs fail to avail of credit due to a lack of external guarantors.
- ▶ One earning member from within the family and one outside the family, usually men of the house, serve as guarantors. Female earning members can also serve as guarantors in some cases. This leads to high dependence on male family members for seeking credit.
- ▶ Single women struggle considerably to find guarantors outside of family.

22.5% of individual enterprises (IEs) and 44.5% of collective enterprises lack credit willingness due to five major reasons

Though credit readiness is a significant factor in women's access to credit, credit willingness is a prerequisite

Motivation

The entrepreneur is uncomfortable with the idea of taking external debt because of the negative cultural connotations of borrowing. This reluctance indicates a bias against the idea of credit or because she perceives the process as not worth the time.

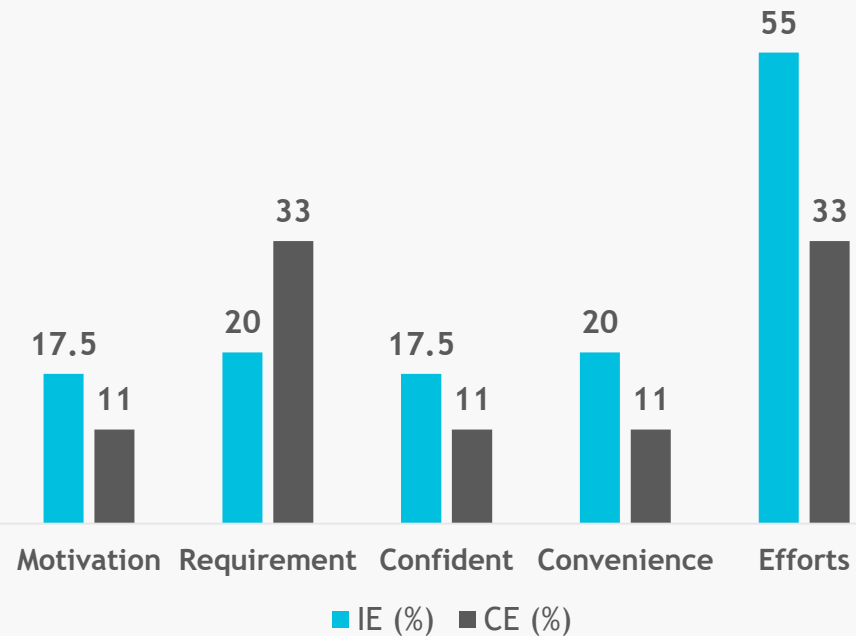
Requirement

She does not need external credit to expand the business as she is satisfied with the status quo or will reinvest the profits into the business.

Confidence

She does not apply for a loan as she perceives that she will not get one from formal sources because she lacks the prerequisites to avail of a formal loan. wMSMEs tend to avail of lower-value loans due to business volatility and fear of defaulting on the loan

Reasons for lack of credit willingness



IE - Individual enterprise; CE - Collective enterprise

Convenience

The entrepreneur finds convenience in borrowing from family and friends to start or expand her business. She finds access to formal credit inconvenient.

Efforts

She did not make adequate efforts to access credit as she lacks financial literacy and awareness of the idea of availing formal credit for business use. She may have an unsuccessful history of applying for formal loans.

Credit-ready wMSMEs who were unwilling to take higher ticket-size loans was because of business volatility and fear of defaulting on the loan

Refer Slide 34 - 35 for reasons behind the lack of credit willingness of collective enterprises

wMSME's journey to access credit changes with bridge institutions

Bridge institutions affect all the stages in an entrepreneur's access to credit, including improving their credit readiness and credit willingness



What are bridge institutions



Proportion of respondents with access to bridge institutions

- Both individual enterprises and collective enterprises have access to bridge institutions like SEWA, SKDRDP, JEEVIKA, Utkarsh Welfare Foundation, EDII, TRIFED, etc.



Bridge institutions

- Our study finds that bridge institutions offer more than credit as a service to women. These institutions offer memberships, credit++ services, such as training and business support services, and serve as a bridge between banks and individual users or members.
- Bridge institutions could be government or private organizations, cooperatives, or SHPIs that provide credit++ services for female entrepreneurs. They follow a gender-intentional or gender-transformative approach in lending to female borrowers.



Role played by bridge institutions

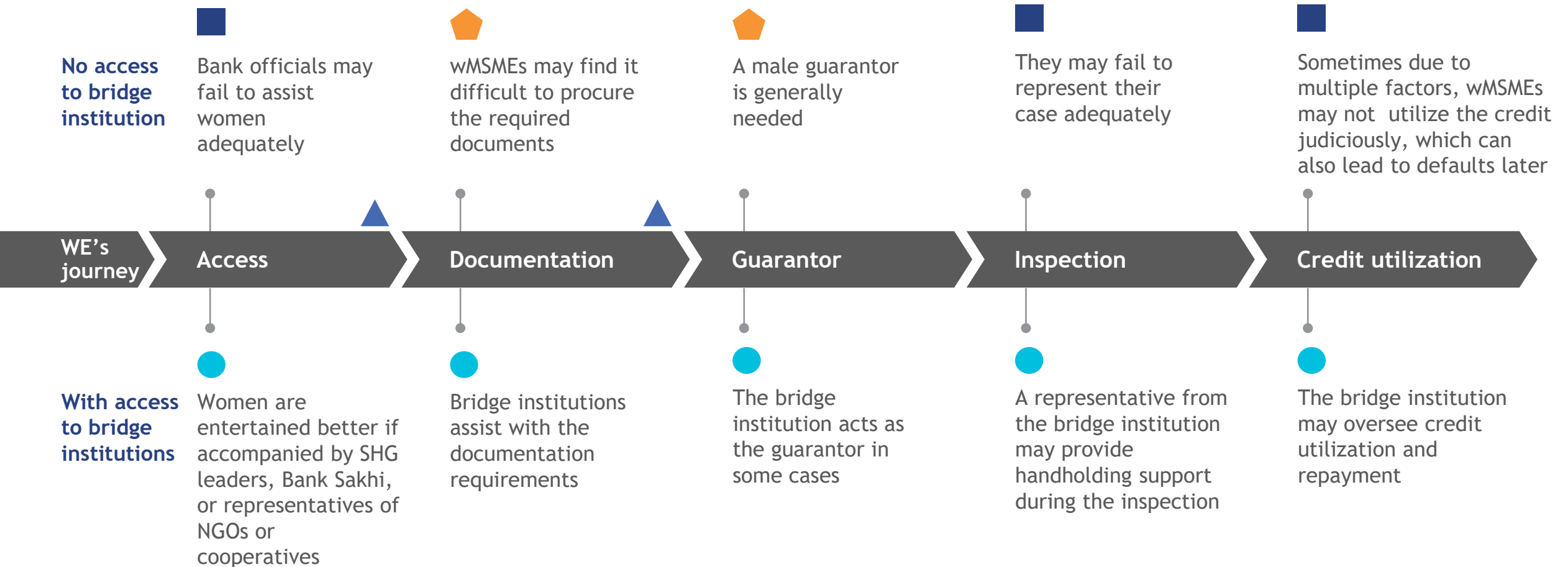
- Encouraging more wMSMEs to become credit-willing and improving awareness of responsible credit
- Occasionally act as a guarantor or security for informal wMSMEs to get a loan of more than INR 1 lakh (USD 1,217)
- Supporting and handholding wMSMEs to fill out applications, business registration, tax registration, etc.



Bridge institutions increase women's access to finance

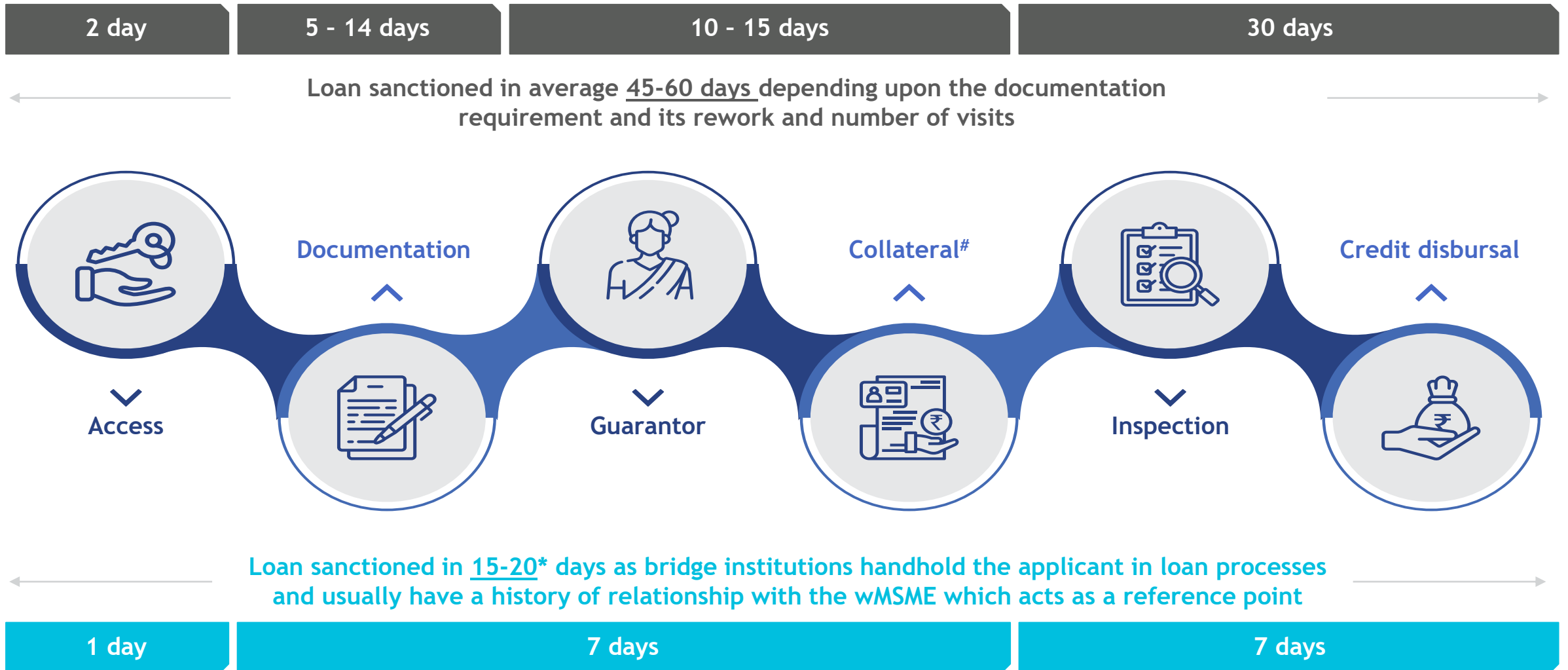
- Female entrepreneurs and enterprises with access to a bridge institution received credit even if they lacked documents or collateral [small ticket sizes up to INR 5 lakhs only (USD 6,085)].
- The credit outcomes change for wMSMEs that have access to bridge institutions even with similar credit readiness and credit willingness as other wMSMEs.

Bridge institutions open the door for seamless access to credit and prepares wMSMEs for higher ticket-size credit



● Seamless
 ■ Hard
 ◆ Very hard
 ▲ Intermediaries ease the process

Credit access timeline of wMSMEs with and without access to bridge institutions

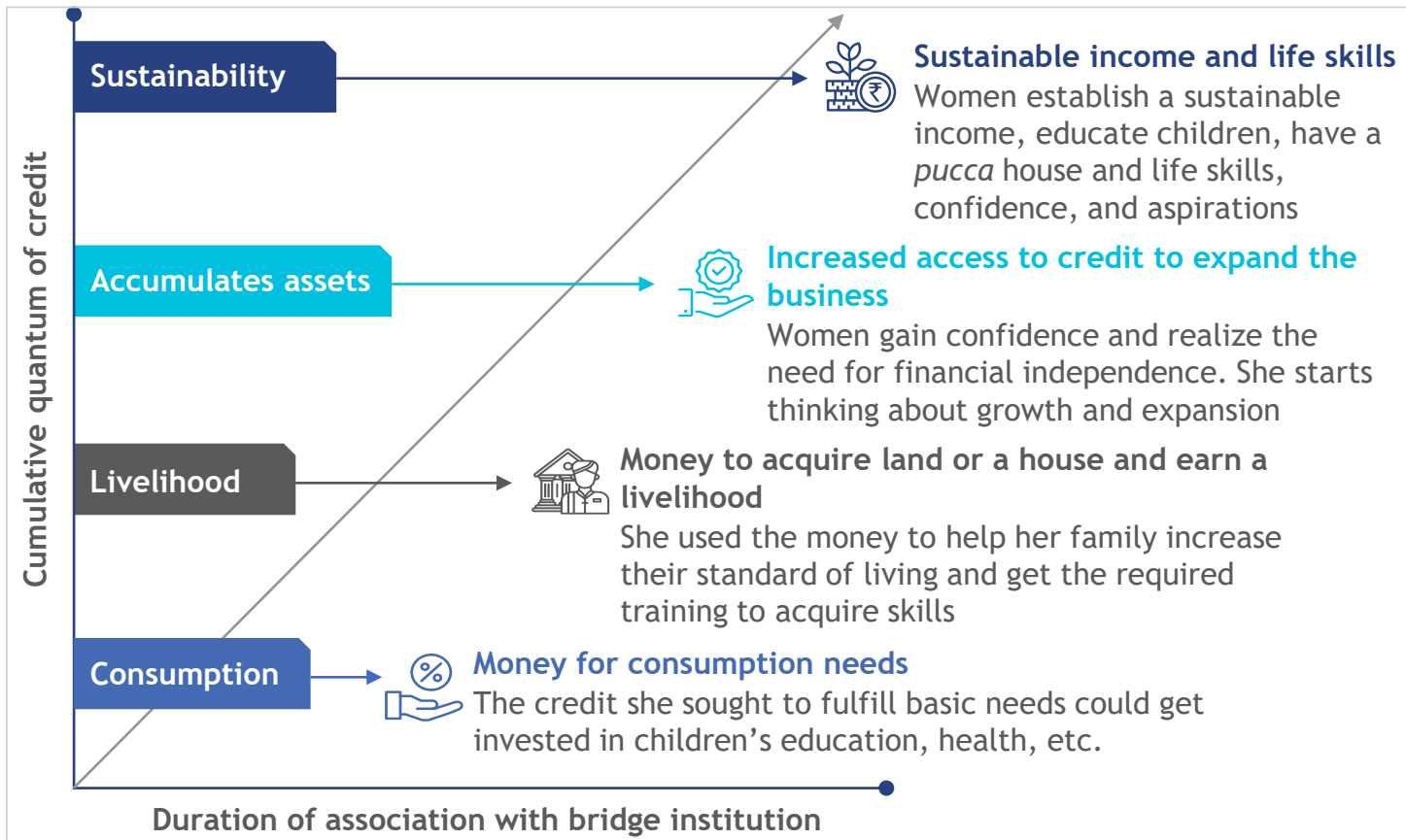


WMSME with support from bridge institution

WMSME without any support from the bridge institution

Over a long time, an association with a bridge institution acts as a catalyst for women to graduate out of poverty

In the case of Shri Kshetra Dharmasthala Rural Development Project (SKDRDP), vintage* group members received a cumulative quantum of credit of INR 15-25 lakhs (USD 18,255 - 30,425) over an 18-20 year period complemented by multiple training sessions and exposure. This has helped them move out of extreme poverty and start multiple income-generating livelihoods.



I became a “*Jagat Bua*” (community aunt) for women in distress in my locality. All of them come to me to help and I help them to become independent.

- Anju Saini,
Entrepreneur, SKDRDP
group member



I was a *beedi* roller. My association with the group gave me the confidence and skill to take a loan and start something on my own. Today after 15 years of being associated with the group and receiving incremental credit, I have educated two children, built a *pucca* house, and run a small snack unit and bakery.

- Gulabi, Entrepreneur,
SKDRDP group member



Improving credit willingness of collective enterprises depends on their ability to expand to new markets

Seed capital requirement:



- Collective enterprises we interviewed stated their seed capital requirement ranged from INR 5 to 10 lakhs (USD 6,085 - 12,170) and upward. In cases of collectives with a parent institution like SEWA bank or JEEViKA, the parent helped provide the seed capital.
- Respondents reported that they fulfilled their initial seed capital requirement from formal sources, informal sources, support from parent institution, and their own savings.

Credit readiness of collective enterprises:



- 78% are credit-ready. However, not all of them are credit-willing. The remaining 22% are not credit ready due to a lack of business model, credit history, and collateral.
- The pandemic has compounded the demand for funding among collectives. They seek timely and affordable credit which is not easily available from banks. Supply remains constrained, especially for those in the early stages of their business. These collective enterprises do not have enough profits to show a viable model.
- Early-stage collective enterprises with strong growth potential believe that high-cost debt is not the right financial product for them.
- They need concessional capital that allows them the time and space to reach profitability in the first three to five years.

Collectives prefer a mix of grant and soft loans that can give them time and space to achieve profitability

Impact of bridge institutions on collectives:

- Collective enterprises used credit to strengthen and expand their businesses. They emphasized the pivotal role played by their parent organizations, such as JEEViKA and SEWA Federation, in four areas. These are
 - providing seed capital,
 - offering mentorship and support in times of crisis like COVID-19,
 - connecting them with capital, soft loans, and interest-free loans, and
 - maintaining the credibility and brand of the parent organization, which helps build their own brand and market
- CEs reported receiving support from alternate finance mechanisms, such as soft loans, interest-free loans, and loans from revolving funds constituted by bridge institutions, such as SEWA Federation and JEEViKA. These alternate funding mechanisms are critical in providing patient and affordable capital to meet the collectives' credit needs. This enabled these collectives to stabilize and tide over internal and external exigencies.
- Similarly, receiving credit from a revolving fund was a mechanism that worked for the enterprises and the parent organization (SEWA Bank). The enterprises could rotate and prioritize funds as per their needs. This allowed the recycling of funds to serve the needs of a larger number of enterprises.

The case of a canteen and food catering collective enterprise

The collective enterprise defaulted on a bank loan due to a sudden cancellation of many orders.

It received support from SEWA Bank to pay back the loan. Constant support and mentorship from SEWA bank gave it the confidence to stabilize its production and sales.

It has since then recycled its own profits and savings to invest. However, with support from SEWA Bank, it recently availed of an interest-free working capital loan worth INR 5 lakhs (USD 6,085) from Kinara Capital.



Founders of the canteen and food catering collective enterprise



Key findings from the supply side

Bankers employ a “gender neutral” approach in providing credit products, creating awareness, and targeting different customer segments

1

Loan products



- Most mainstream banks provide standard loan products for all customers. However, SFBs shared they have 25 variants of loan products in the ticket size of INR 1-2.5 lakhs (USD 1,217 - 3,042.5).
- A wide variety of bridge institutions focus on women’s lifecycle needs. For instance, SEWA’s Bank offers solar loans and loans for water pumps and equipment, etc.
- Mainstream banks perceive women as customer segments limited to priority sector lending, government schemes, and the microlending portfolio.

2

Awareness and Targeting



- Mainstream banks did not share any strategies to target female customers or create awareness among them. However, they do so to fulfill targets under government schemes.
- Bridge institutions have a community-based structure that actively conducts outreach to expand their user base among women. However, their outreach took a hit during COVID-19.
- Similarly, SFBs target converting more group microfinance borrowers into individual borrowers to increase their outreach to potential female borrowers.
- Bankers shared that increasing digital and mobile ownership penetration has created more awareness of credit availability from the private sector. However, they have also created a need to safeguard borrowers from fraudulent intermediaries.

Adopting gender neutral approach excludes potential and reliable wSMEs from formal credit. And it also leads to lack of relevant credit products, unsuitable product delivery and impacts user experience of the existing women borrowers

Bankers consider women as most reliable borrowers, yet wMSMEs only remain concentrated in their micro-lending portfolio's

3

Women's credit portfolio



- Most bankers shared that women usually comprise the largest set of borrowers in their microlending portfolio.
- Bankers, especially SFBs, shared that they increasingly target female group loan clients for individual lending. However, it is a slow process. Group microfinance still constitutes around 80% of their credit portfolio for women.

Ticket size (INR)	% of disbursed loans	% of disbursed amount
<20K	11%	2%
20-40K	45%	23%
40K-100K	31%	28%
100K-500K	12%	37%
>500K	~1%	9%

- Bridge institutions shared that they see a huge demand for credit among women in three critical areas—housing, education, and business loans.
- E.g. SEWA Bank has 75-80% of borrowers in the unsecured loans segment, very few in the secured INR 3-5 lakhs (USD 3,651 - 6,085) segment, and the higher size INR 5-15 lakhs (USD 6,085 - 18,255) segments comprises mostly secured housing loans.

4

Bankers experience with female borrowers



- Mainstream banks shared that they follow a “gender-neutral” approach toward their customers.
- Bankers shared that women who own and run their businesses often do not need much handholding support except for women who are proxy business owners
- None of the supply-side samples used alternative credit scoring for female borrowers.
- Many banks use technology-led credit appraisal systems. Some bankers shared that the approval rates for female borrowers, in particular, can drop if it is not accompanied by manual appraisal. This is because the tech-led appraisal is stringent and by design cannot account for certain factors.
- In terms of repayments, almost all bankers shared that women are more reliable borrowers who repaid more consistently. Some shared that the presence of women as co-borrower in any loan increases the loan repayment rates.
- All supply-side interviewees agree that educating female borrowers to maintain digital records of business cashflows, good credit record, stocks and inventory records, and financial and digital capacity-building is essential to increase loan approval rates.

Women customers minimize the risk of default, but they often lack collaterals and requisite documentation to avail loans

- Banks assess the creditworthiness of all applicants based on the comprehensive credit information report (CIR), which consists of household credit history, CIBIL score, income, and expenses profile.
- The credit appraisal processes for male and female applicants are identical.
- The success rate in receiving credit is high when the female applicant receives support from SHGs, SRLMs, or a bridge institution.
- We noted that some FSPs provide credit repayment options like flexibility in repayment tenure and reduced EMIs in case of externalities or contingencies for female customers.
- Mainstream Banks do not offer or suggest women-specific business loan products to female customers, even when such products are available, such as government programs that offer credit to women like Stand Up India.
- Banks do not proactively promote credit guarantees and business loans under government schemes.
- The need for GRM arises rarely, as customers trust banks and lack financial literacy.
- Banks state they receive very few applications from female borrowers in the MSME loan segment. It remains dominated by applications from men.

“

Having women as a co-borrower in the loan structure minimizes the probability of default and ensures loan recovery or repayment

- A senior MSME credit officer at an SFB

”

wMSMEs struggle to secure formal bank loans due to:



Lack of accepted collaterals:




- Fixed assets
- Gold
- Savings or deposits with the bank
- Purchase bills
- Inventory stock
- wMSMEs lack guarantors to secure their loan



Lack of accepted documents:

- Business registration
- ITR
- Company PAN card
- GST
- P&L statements
- Bank statements
- Inventory or stock assessment
- Bad credit history of guarantors

Some exemplars of good practices adopted in different processes to improve women's access to credit

	SEWA Bank (Cooperative Bank) 	SKDRDP (Bank BC and SHPI) 	Streenidhi (SRLM) 
Pre-sanction	<ul style="list-style-type: none"> SEWA Bank has a unique way of acquiring and connect with its clients through its network of female field force called Sheri Sakhi and the network of Bank Saathis. Sheri Sakhi are from the same community, know their financial needs, and can source applications from women needing credit. For new borrowers, the Sheri Sakhi encourages them to first save in the savings account, even if they start with a small amount. 	<ul style="list-style-type: none"> SKDRDP sources customers with community help and support from its community field force of 16K Sevaprathinidhi, more than 80% of whom are women. Besides women-led SHGs, SKDRDP also has mixed JLG groups of single young men and women (18-35) who practice savings and work on business plans to receive credit linkage. 	<ul style="list-style-type: none"> Streenidhi gained credibility and popularity due to doorstep delivery of credit at affordable rates (11%) within 48 hours. Instant credit support is available for emergencies. It started in 2011 with a 14% interest rate and gradually made it more affordable at 11% for all the borrowers.
Processing	<ul style="list-style-type: none"> Sheri Sakhi procure documents for the application process from the bank staff. They provide handholding support to women during the application process. Sheri Sakhi provide doorstep services to female borrowers so they do not miss on their wages due to time spent at the bank. 	<ul style="list-style-type: none"> Sevaprathinidhi support, guide, and handhold SHG and JLG members in accessing credit. Group members are trained to understand the group's financial management. If the SHG member's family is the "utilizer of credit," they should also attend the SHG and federation meetings to avail of the loan. This is essential to ensure that male members also take responsibility of repayments, and reduce the mental burden on women. 	<ul style="list-style-type: none"> Technology adoption has reduced its TAT to 48 hours and reduced instances of fraud. Group-level due diligence on a democratic basis and a field visit by the assistant manager is mandated to decide on a loan. If the borrower dies, due to loan insurance coverage, the amount the member has paid is returned to their legal heir. The outstanding repayment is written off from the books. This reduces the loan burden on family members.

Some exemplars of good practices adopted in different processes to improve women's access to credit (continued)

SEWA Bank (Cooperative Bank)



- The bank's entrepreneurship development program helps women with their enterprises by imparting skill training and building financial capability.
- The well-knit network of Sheri Sakhi and Bank Saathis collects repayments through cash or digital means, saving time and increasing convenience for women.
- SEWA Bank officials do not send recovery agents to a female borrower's house in case of a default. They send reminders, follow up individually through their field force, and only send a legal notice if needed. As per the bank, many female borrowers prefer long-term banking with SEWA Bank, since they feel the presence of recovery agents on the doorstep brings shame and stigma to them in the community. This is critical, as many female borrowers do not default willfully.

SKDRDP (Bank BC and SHPI)



- Auditing of loan amount utilization against the mentioned purpose of the loan.
- Every member prepares a five-year annual family budget plan before applying for credit linkage. Members maintain this in a "family register" that also contains details of their income, credit requirements, and household financial obligations.
- 16 different types of training courses are provided to every group to improve their standards of living and incomes. The women's empowerment module focuses on six themes: eliminating violence against women and linkage to government schemes.
- Sevaprathinidhi and SKDRDP BC agents ensure convenient repayments at collections points.
- The SKDRDP SHG app maintains digital records of both financial and non-financial parameters of SHG groups.
- Children of SHG members with exceptional academic records are facilitated with scholarships.

Streenidhi (SRLM)



- People can access information through the Streenidhi app and seek help through the helpline number.
- A robust system of GRM exists, which is also provided through WhatsApp groups. Grievances of members are addressed immediately.
- Some members repay digitally through UPI.
- Streenidhi has an app that helps digitize the lending process and builds borrowers' credit histories.

Some product exemplars to improve women's access to credit (continued)

Jeevika (Bihar SRLM)



- Jeevika is working with partners like MSC to create enterprise financing products that can be provided through Jeevika-supported Cluster Level Federations (CLFs) to SHGs. This serves two critical objectives, one serving the enterprise financing needs of wMSMEs who are members of SHGs. Two, productize the funds available with CLFs for on-lending
- For example, Jeevika has developed an enterprise financing product that will provide loans to existing women entrepreneurs in five selected blocks/CLFs. wMSMEs are provided support to access this product through the CLF/VO.
- Jeevika has enabled the sanction/disbursement of loans worth INR 27,65,000 (~ USD 33,650) in less than two months through this CLF product.
- At the time of the study, CLFs had sourced more than 116 loan applications. The average ticket size of this enterprise financing product is INR 1,00,000 (USD 1,217).

Madhya Pradesh Aajevika Mission (MPSRLM)



- Pradhan Mantri Ujjwala Yojana (PMUY)- a flagship scheme was introduced to provide subsidised LPG connections to women from poor households. Many low-income families refrained from refilling the gas cylinders due to various challenges, including accessibility, affordability and cultural issues. This became one of the major obstacles for the PMUY. MPSRLM, MoPNG and MSC conducted a pilot to resolve this.
- A need-based loan product (Ujjwala loan) was designed and piloted with SHG members.
- A new cadre of community resource persons (CRP) - Ujjwala didi were selected and trained to create awareness and uptake of the loan product and facilitate delivery of LPG refills at a common service point in the village.
- A Standard Operating Procedure (SOP) was developed to deliver LPG refills at a common service point in the village.
- The product and service of ujjwala didis are now rolled out in 12 districts of MP.



Sushmita, 26, is a BC agent



Gauri, 24, works in a women-led snack-making unit

Novel methods employed to distribute and mitigate credit risk (1/2)

1

Encouraging savings and social protection of the borrowers



- In association with LIC India, SKDRDP started promoting microinsurance policies among SHG members through Jeevana Madhura, Bhagyalaxmi, and Micro Bachat policies.
- SKDRDP uses Micro Bachat to cultivate awareness of life insurance policies and bring SHG members under insurance.
- SKDRDP ensures SHG members have savings by inculcating a habit of micro and small savings, which enables them to repay loans in case of difficulties or contingencies.
- SKDRDP has the highest uptake of microinsurance policies for LIC in Karnataka. Its institutional strategy is to improve social protection and the increase asset base of the household through several savings and insurance products.

This improves repaying capacity and accumulated savings of wMSMEs, which in turn acts as a measure to mitigate the risk of defaulting in case of contingency, emergency or death.

2

Institutional Guarantor



- SKDRDP is a BC/BF for six major commercial banks.
- In some cases, SKDRDP serves as an institutional guarantor to banks for loans to its borrowers.
- Similarly, even though SEWA Bank is not an institutional guarantor, it supports its members in paying off debt from other lenders when they are on the verge of defaults. In such cases, it is a moral guarantor for its cooperative members.

“

Women who were earlier afraid of taking INR 500 loan now confidently demand loans of up to INR 3 lakhs (USD 3,651) without fear, as they have savings in the bank alongside insurance.

- Field officer

”



Novel methods employed to distribute and mitigate credit risk (2/2)

3

Pigmy scheme



- It is a recurring deposit scheme started by the former Syndicate Bank.
- A bank-authorized pigmy agent collects savings daily at the customers' doorsteps.
- Customers must maintain a minimum monthly contribution of INR 50 (USD 0.61), which should not exceed INR 30,000 (USD 365.1) per month per account.
- Banks accept and consider Pigmy RD account as a liquid asset or collateral. The scheme allows a loan facility of 75% of the outstanding balance.

When pigmy scheme beneficiaries want to avail credit from the Syndicate Bank. The deposits created under this scheme serve as collateral for mitigating credit risk for the bank.

4

Surety bond



- Customers with no collaterals or property can sign a INR 100 (USD 1.2) surety bond of repayment to avail credit from SKDRDP.
- These surety bonds are linked to the Pragati Raksha Kavach (PRK) insurance policy created by LIC for SKDRDP to secure a loan.
- Under the PRK policy, both borrower and utilizer of the loan have to register by paying an annual premium of 0.325% of the loan amount. This insurance claim amount is adjusted against the outstanding loan amount in case of default or death of the customer.
- SKDRDP offers loans ranging from INR 1-3 lakhs (USD 1,217 - 3651) based on the surety bond.

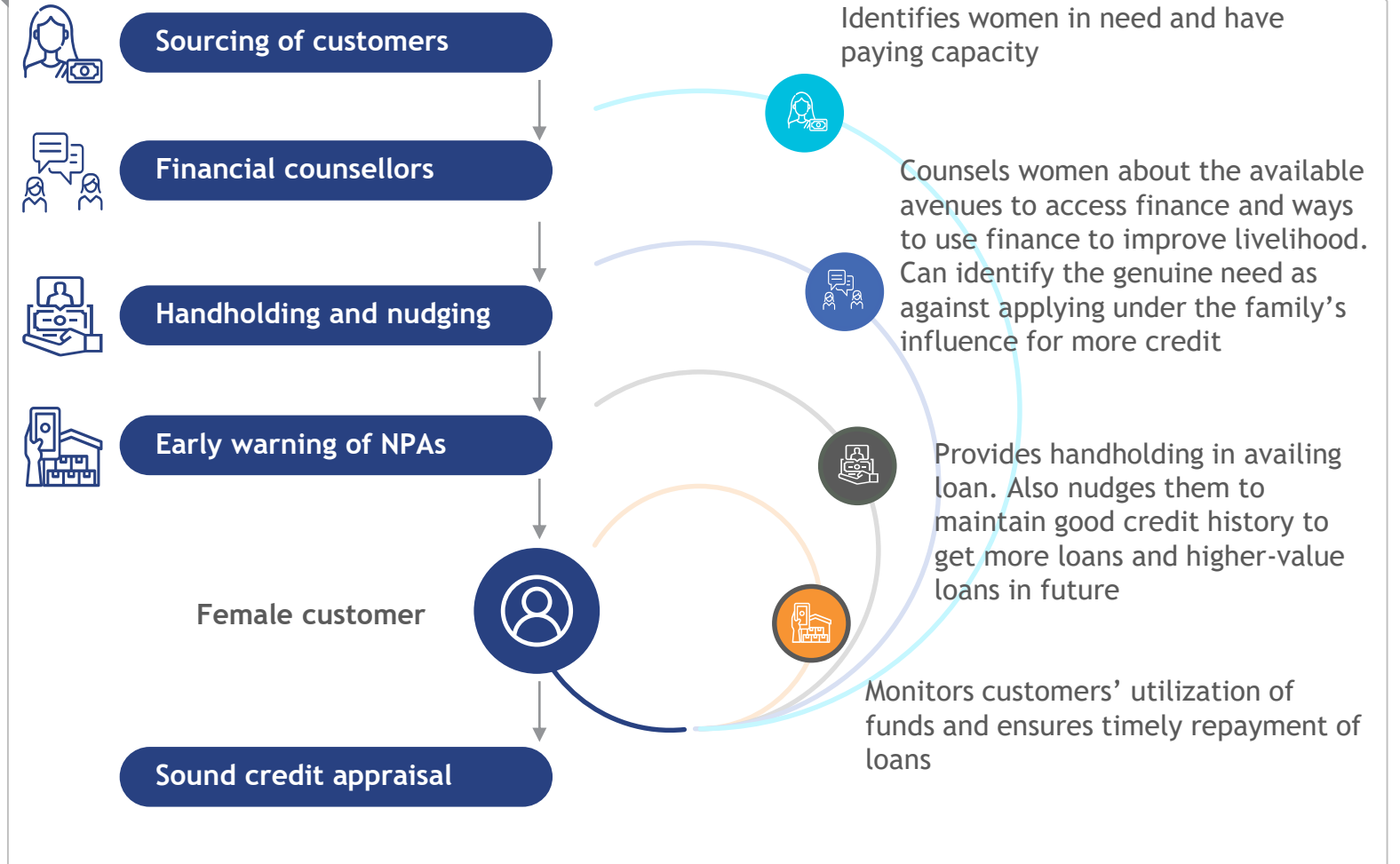
Surety bonds linked to a micro-insurance policy act as a mechanism to mitigate credit risk. It also enables collateral-poor women borrowers to avail of credit.

Using a community-embedded credit appraisal system to mitigate risk

Role of the community

- We find that all bridge institutions mitigate risk by engaging deeply with the local community.
- The staff comes from the community and maintains community cohesion by being embedded in it while promoting group discipline and capacity building.
- Community members are reluctant to default and spoil their relationship with this system, as it forms a solid support system for them in times of crisis.
- Streenidhi and SKDRDP involve SHG members in assessing and determining the borrower's need and paying capacity.
- The group members do the due diligence on a democratic basis, and they take accountability for repayment.
- In the case of SEWA Bank, a Sheri Sakhi and a field officer, both of whom are from the community, source and recover the loan.

Role of Sheri Sakhi and Sevaprathinidhi in credit appraisal



Profile and work of Sevaprathinidhi and Sheri Sakhi



Manjula

- Sevaprathinidhi, SKDRDP
- Working for the past seven years
- Works for three to four days per week
- Earns INR 5k-20k commission per month



When I first started, I expected to work for only one month. But once I started working, I felt motivated to support my fellow women, and seeing them develop made me happy to continue as Sevaprathinidhi.



Namrata Ben, SEWA Sheri Sakhi

- Community leader
- Sources female customers from the field while increasing their financial literacy
- Connects female applicants with Bank Sathis of SEWA Bank
- Ensures repayment, mostly through digital means

Tasks of grassroots women workforce



Sourcing eligible customers as per the eligibility criteria

1



First credit appraisal of loan applications received from customers

2



Ensuring group discipline is followed and overseeing the implementation of group-level rules and regulations

3



Facilitating repayment collections and monitoring of utilization of funds

4

Pigmy: An authorized bank agent at the grassroots

The pigmy scheme helps daily savers of modest means to start small savings based on the daily door-to-door collection. The bank's Authorized agent (Pigmy) collects savings at the doorsteps of customers daily.



Doorstep service

- Opens the pigmy deposit account at the customer's doorstep
- Visits households and collects daily deposits
- Customers shared doorstep collection acts as a nudge to put aside money for savings



Building assets

- Small and informal business owners can build documented assets using the Pigmy scheme
- Banks extend credit on the basis of the Pigmy RD account



Inculcating a savings habit

- Informal business owners, smallholder farmers, and female traders can use pigmy to save their daily earnings with convenience and ease
- Customers can save up to 1K per day and 30K per month



Funds for bigger capital needs

- The scheme allows a loan facility of 75% of the outstanding balance
- Users can break this RD after maturity to invest in the business



Dinesh Rao
Pigmy, Canara bank

- 35 years experience as pigmy
- Visits about 120 houses per day
- Earns 3% of the total monthly collection as commission



Female staff at SEWA Bank branch in Ahmedabad



Helpdesk at SEWA Bank providing handholding support to customers in Ahmedabad



Recommendations

Recommendations

1	2	3
Create strong bridge institutions	Enhance credit readiness of wMSMEs	Reimagine credit risk assessment methods and product design for wMSMEs
Nurture strong bridge institutions to enable access to adequate, affordable and timely credit for women	Incentivize women in the missing middle segment to become credit ready	Reimagine credit risk assessment for thin file wMSMEs. Mobilize and deploy targeted fund for increased lending to thin file wMSMEs





Sheila (right), a jasmine horticulture entrepreneur and a single mother with her daughter. She also manages her Areca nut plantation



Mallika, a dairy entrepreneur in Karnataka

Policymakers can support development and creation of bridge institutions to enable access to adequate credit for women



Action Points 1



Commission a mapping of existing bridge institutions* in every state. Identify different types and categories of existing bridge institutions.



Create a national strategy (with budget allocation) to create new and strengthen existing bridge institutions.



Deploy a targeted fund to channel higher ticket size funding (INR 2-5 lakhs or USD 2,434 - 6,085) through a pilot with select bridge institutions.



Use learnings from the pilot to iterate, adapt and scale higher ticket-size funding channeled to wMSMEs through bridge institutions.



Why focus on bridge institutions ?

1

The study finds that bridge institutions are critical in facilitating women's access to credit. These institutions comprise of SHPIs like SKDRDP, SRLMs, cooperatives like SEWA and others who act as a bridge between women entrepreneurs and the formal mainstream banking system.

2

Apart from providing convenient access to credit, these support structures have played a key role on 3 key fronts. Sustained association of more than 15-20 years with such institutions have played a key role in helping women graduate out of extreme poverty, access incremental credit and gradually accumulate assets.

3

They provide both credit and credit plus services and trainings to women, this has helped create confidence, which enables women to improve their livelihoods and financial management and consequently creates more credit absorption capacity for larger size of credit.

4

The confidence created by their support (especially in emergencies) and sustained presence (beyond give and take of credit) has converted many credit averse women to seek credit confidently.

Policy measures for enhancing credit readiness of wMSMEs need to be more targeted



Action Points 2



Identify and target “credit willing” (enthusiasts, aspirants, and beneficiaries) women entrepreneurs to become “credit ready”.



For our research with WEP, we identified six ecosystem needs of wMSMEs. Supporting wMSMEs on these key ecosystem needs could support them to become credit ready.



Introduce tangible incentives in the credit cycle for women borrowers who start to maintain business books, digital business transactions.



Introduce mission mode drives in partnership with grassroots organizations to handhold wMSMEs for improving their digital footprint.



Why focus on credit readiness ?

1

Women entrepreneurs who are credit willing often do not have the complete documentation required to avail of credit beyond the microfinance limit of INR 1.5 lakhs (USD 1,825.5).

2

All banks need proof of business cashflows, active bank account, good credit history, and Income Tax Returns as bare minimum requirements to access higher-size loans.

3

The requirements also hold true for digital credit from NBFC’s, SFBs and higher size secured loans.

4

There is a need for Jan Dhan kind of mission mode drive and incentives for women entrepreneurs to encourage them to build their credit readiness for accessing formal financial institutions independently.

Policymakers and regulator can nudge practitioners to reimagine credit risk assessment and product design for wMSMEs



Action Points 3



Revisit documentation, guarantor, and collateral requirements for different women borrower segments.



Create partnerships between banks, bridge institutions* and fintechs. Commission pilots that combine capabilities of fintech's with community intelligence of bridge institutions to collect non-traditional data points on wMSMEs financial and business behavior.



Foster enterprise product innovation with gender intentional designing and UI/UX. FSPs should be nudged to adopt and implement gender sensitive approach in their product design, delivery, and credit appraisal.



Offer differentiated and risk-based pricing to wMSMEs who show a good credit history.



Why focus on reimagining credit assessment for thin file wMSMEs?

1

The study finds that financial service providers use only traditional methods of credit assessment. These methods mandate heavy documentation, collateral, and guarantors for higher ticket-size loans.

2

With limited bandwidth, banks don't have deeper visibility and relationship with women borrowers to estimate their risk profile, assess past business behaviour. Banks do not have the business knowledge and acumen to assess wMSMEs with micro and small businesses.

3

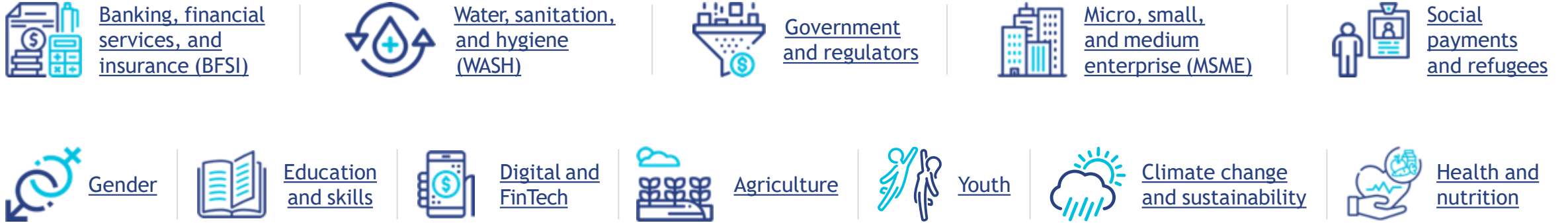
The study finds that local community intelligence plays a significant role in reducing risk for bridge institutions.

4

Banks need to rethink legacy processes and policies that fail to segment women borrowers and club all thin file wMSMEs as "high risk". Banks' credit assessment processes need to evolve partnerships that help them better understand user profiles so they don't miss high-potential wMSMEs.

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