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LEAD LEVERAGING EVIDENCE FOR ACCESS AND DEVELOPMENT
KREA UNIVERSITY

BEYOND THE NUMBERS - **DECODING THE GENDER GAP IN FINANCING SMEs IN INDIA**

JULY 2023

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BEYOND THE NUMBERS -
DECODING THE GENDER GAP IN FINANCING SMEs IN INDIA

About Villgro

Villgro is India's foremost impact-first incubator with expertise in 4 sectors – Healthcare, Agriculture, Climate Action, and Gender Inclusion. Villgro addresses the pressing social and environmental challenges by rapidly mobilizing innovations in India. It engages with early-stage inventors and entrepreneurs, across the country, to build their ideas and create impact at scale.

Villgro works to maximize the potential of social enterprises building disruptive solutions through its highly customized, hands-on approach to incubation. It enables innovative partnership models & financing solutions that bring all stakeholders in the marketplace to actively engage and support these innovations.

www.villgro.org

23 Years,
20.8 Mn Lives Impacted

387 Number of startups supported	**₹4.08 Bn** Investments raised
87 Women-led enterprises	**8,175** Direct jobs created

LEAD LEVERAGING EVIDENCE FOR ACCESS AND DEVELOPMENT
KREA UNIVERSITY

About LEAD at Krea University

LEAD (formerly IFMR LEAD), is an action-oriented research centre of IFMR Society that leverages the power of research, innovation and co-creation to solve complex and pressing challenges in development. LEAD has strategic oversight and brand support from Krea University (sponsored by IFMR Society) to enable synergies between academia and the research centre.

Since 2005, LEAD has been at the forefront of development research and programming in India, and has managed a portfolio of over 265 projects in collaboration with over 300 academics, governments, NGOs and private sector organisations from across the globe.

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ASPEN NETWORK OF DEVELOPMENT ENTREPRENEURS
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About ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in developing economies. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs create jobs, stimulate long-term economic growth, and produce environmental and social benefits. As the leading global voice of the SGB sector, ANDE believes that SGBs are a powerful, yet underleveraged tool in addressing social and environmental challenges.

Since 2009, we have grown into a trusted network of nearly 300 collaborative members that operate in nearly every developing economy. ANDE grows the body of knowledge, mobilizes resources, and connects the institutions that support the small business entrepreneurs who build inclusive prosperity in the developing world.

ANDE is part of the Aspen Institute, a global nonprofit organization committed to realizing a free, just, and equitable society.

https://andeglobal.org/

Acknowledgements

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Foreword

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Villgro Innovations Foundation

At Villgro, we firmly believe in harnessing the power of innovation to tackle pressing social and environmental challenges. Our approach to incubation is hands-on, providing tailored support to meet specific needs. We are strong advocates for inclusive and responsible businesses, recognizing their potential to create a significant impact. Central to our mission is the empowerment of women entrepreneurs, which we accomplish by facilitating access to markets, ensuring timely and appropriate financial resources, and fostering opportunities for their success. We are dedicated to improving women's participation in the workforce and advancing their overall empowerment.

Undoubtedly, one of the key hurdles faced by MSMEs, particularly those led by women, lies in attracting the right capital and the right time. Regrettably, societal norms have constrained many women, relegating them to lives primarily focused on their families' well-being. Educational limitations, early marriages, and limited decision-making rights persist in various domains. Recognizing that a nation and society cannot progress when half of its population is disempowered and marginalized, we understand that rectifying these issues demands a concerted effort. Achieving equality means addressing the existing disparities while factoring in present circumstances and crafting solutions that promote equity.

This study represents a vital step towards achieving these goals. Its primary objective is to uncover biases and barriers faced by women entrepreneurs when accessing debt finance. We seek to understand the challenges they encounter and identify actionable solutions. Despite the advent of the digital era, where credit evaluations for SMEs are increasingly unbiased, our study reveals that women entrepreneurs still face significantly longer and more arduous processes in securing loans compared to their male counterparts. This calls for a gender sensitization within banks and financial institutions to overcome the subconscious biases that persist.

Interestingly, our study revealed that a higher proportion of women had postgraduate education compared to men. However, women seemed to be less networked, possibly due to the additional responsibilities of tending to both the home and the business. Consequently, women were less likely to utilize referrals as a means to access loans compared to men. However, we observed that women who were part of networks such as industry bodies and incubators had higher loan application rates. This finding emphasizes the importance of consciously making efforts to attract women entrepreneurs to networks. Opportunities for socialization and networking with other professionals who can support their business growth must be designed with consideration for their unique needs and time constraints.

While it is encouraging that credit underwriting standards are the same for men and women, it also brings to light the inherent bias by having equal requirements such as collateral. In a society where women have traditionally not been asset owners, these requirements act as natural deterrents for women seeking loans, especially for larger amounts. Recognizing the fiduciary duties of banks and their limited flexibility in relaxing these norms, we propose leveraging developments in the field of impact finance, such as blended finance, to de-risk transactions for banks and enable flexible collateral-free financing for women-led SMEs. We also recommend specific interventions by the Government to encourage financial institutions to lend to women entrepreneurs.

We are delighted to partner with LEAD at Krea University for this study. Their unwavering dedication to co-create practical solutions through action-oriented research is commendable. Despite the challenges encountered in accessing samples, they persevered. We extend our heartfelt gratitude to them for their invaluable contributions. Their meticulous analysis will provide us with deeper insights to design and implement better solutions that bridge the access to finance gap for women-led SMEs.

Women entrepreneurs represent a vast sea of untapped potential. The issue of access to finance for WSMEs is a large and systemic challenge, and achieving meaningful change requires collaborative efforts and a unified ecosystem. We extend an open invitation to banks, philanthropic organizations, impact investors, industry associations, and all stakeholders passionate about advancing gender inclusion to join forces with Villgro. Whether it’s structuring specific solutions like blended finance for collateral-free loans, creating networks, or building the capacity of women entrepreneurs, we urge you to reach out and collaborate. Together, we can craft transformative solutions to bridge the finance gap.

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Abbreviations

CGTMSE	Credit Guarantee Trust for Micro and Small Enterprises
DSA	Direct Sales Agents
FY	Financial Year
MSME	Micro, Small and Medium Enterprises
NBFC	Non-Banking Financial Company
NIC	National Industrial Classification
PIB	Press Information Bureau
RBI	Reserve Bank of India
SME	Small and Medium Enterprises
TAT	Turnaround Time

Executive Summary

Women-run micro, small and medium enterprises (WMSMEs) account for approximately only 20 percent of all MSMEs in India. WMSMEs are constrained by various challenges, principally access to finance at different stages of the business. A large body of evidence has documented the gender gap in access to finance between men and women-run enterprises. In this context, the present study builds on the existing literature to analyze if the gender credit gap can be attributed to explicit or implicit gender biases and discriminations present in identification/sourcing strategy and/or credit underwriting and decision-making processes adopted by financial institutions. Further, within the women-run enterprises' segment, the study focuses on finding variegated credit uptake across entrepreneur and enterprise characteristics such as age, education, sector of operation, legal status, presence of male co-founders/co-owners, and/or membership in networks.

This study focuses principally on the WMSMEs that have a reported capital requirement greater than or equal to INR 10 lakhs in the financial year 2023-24 (FY24), and had a certain capital requirement in the last five financial years, 2018-19 to 2022-23 (FY19-23). (In addition, the study also provides a contrast with the enterprises with capital requirements of less than INR 10 lakh in FY24.) The sample size for the study is 856 entrepreneurs (383 women and 473 men).

The average age of female and male entrepreneurs in the sample is 42 years and 47 years, respectively. Notably, while the percentage of women entrepreneurs dips upon reaching the age bracket 50-59 years, a similar trend is observed among men entrepreneurs only post 60 years. All the entrepreneurs have completed at least their senior secondary education, regardless of gender. However, there is a significantly higher percentage of graduates or undergraduates among women entrepreneurs in comparison to men, indicating a higher threshold to start a business. Similarly, **women-run enterprises are younger than their male counterparts - while 61% of men-run enterprises have a vintage of more than ten years, only 33% of women-run enterprises do.** This indicates that, unlike their male counterparts, women entrepreneurs may have a shorter time frame to operate their businesses successfully or entrepreneurship is a relatively newer venture among them, or women between the ages of 30-50 prefer to become entrepreneurs, due to prevailing social norms and a preference for flexible work arrangements.

A similar percentage of women- (60%) and men-run (57%) enterprises applied for credit from formal financial institutions in the last five years. **The study finds that participation in networks, whether formal or informal, and applications for credit may be interdependent. Referrals were observed to be more prominent among enterprises run by men in comparison to their female counterparts, potentially implying that the women-run enterprises are either not part of such networks or do not leverage them adequately.** Among women-run enterprises, a statistically significant association is found between credit application and membership in formal networks, including business associations, incubators, etc.

Broadly, the study does not find gender differences in approval/denial of credit applications: about 87% of credit applications by women- and 96% of applications by men-run enterprises were approved by the financial institutions in the last five years. But while no difference was found in terms of financing gap (defined as difference between amount requested and amount sanctioned) and collateral requirements, the turnaround time (TAT) for credit applications was statistically significant. It is important to highlight that the application of similar collateral requirements across entrepreneurs, irrespective of their gender, may have prevented women entrepreneurs from engaging with the formal credit ecosystem owing to existing social and gender norms. **A higher proportion of women-run enterprises negotiated with financial institutions regarding interest rates, processing fees, prepayment charges, missed EMI fees, etc, as compared to men.**

Combining insights from the desk research, demand-side survey and supply-side key informant interviews, the report suggests recommendations across three verticals: program, process and product, with government initiatives as anchors for scaling up. The program-level recommendations focus on interventions (new and existing) to facilitate more active engagement with women entrepreneurs, drawing on the finding that social networks are an important factor in enabling credit access. **The process-level recommendations highlight improving the gender sensitivity of banking staff towards women to ensure equity during the credit assessment process. There is a need to introduce a gender-intentional lens at multiple levels in the organization across different interaction points between the staff and WMSMEs. Finally, the product-level recommendations emphasize the need to transition from generic financial instruments to those specifically designed for women entrepreneurs.** It highlights the need for blended finance solutions customized as per the needs of women entrepreneurs. Finally, the report provides suggestions on how government initiatives can be leveraged better to implement the program, process, and product interventions.

1. Introduction

1.1 Context

As per latest available data for March 2023, 28 lakh women-owned MSMEs have registered on the Udyam Registration Portal (PIB, 2023), accounting again for approximately 20% of all MSME registrations in the country (PIB, 2023). The gender gap in women's participation and formalization is a function of access to affordable, timely and adequate finance that constrains the set-up, performance and subsequent growth trajectory of women-owned/run enterprises. A large body of evidence has emphatically established the existence of a gender-based financing gap.1 IFC estimates suggest an INR 1.37 lakh crore credit gap among registered and unregistered women MSMEs in India (IFC, 2019).

The present report examines the gender gap in access to and use of financing by MSMEs in India and the potential factors that drive these gaps. While an enterprise can seek various external financing sources, the study focuses on formal debt financing by banks and Non-Banking Financial Companies (NBFCs).

The study uses enterprise-level data collected through a primary survey of more than 800 women- and men-run MSMEs in the country.[2] The study specifically focuses on enterprises with a credit requirement of INR 10 lakhs and above in the current financial year (FY24).[3] To complement the demand-side findings, the study also provides the perspective of the financial institutions/stakeholders regarding credit products, underwriting processes and overall service delivery to improve the uptake of credit by women entrepreneurs.

1.2 Literature Review

Existing literature documents various constraints limiting women entrepreneurs' access to external finance (Cavalluzzo, Cavalluzzo and Wolken, 2002; Muravyev, Talavera and Schäfer, 2009; Bellucci, Borisov, and Zazzaro, 2010; Google and Bain & Company, 2019). A few key strands highlighted in the literature are:

1. **All women-run enterprises are marginalized in the credit market.**
   A cross-country study from 34 countries in Europe and Asia has shown that women are less likely to get financing from a formal financial institution or are charged higher interest rates than men (Muravyev, Talavera, & Schäfer, 2009). Along similar lines, a study in the USA found that women small-business owners experience increased denial rates compared to white men when the competition in the firm's local banking market is lower. (Cavalluzzo, Cavalluzzo, & Wolken, 2002). A perception of higher risk and cultural bias among loan officers is often reported among local banks, which limits women SME owners' access to external finance (Muravyev, Talavera, & Schäfer, 2009; IFC, 2014). As a corollary, it is observed that the gender differences in access to financing vanish with the improvement in financial development (Muravyev, Talavera, & Schäfer, 2009).

2. **Specific women-run enterprises are marginalized in the credit market.**
   There is also evidence to suggest, however, that the financial institutions do not necessarily discriminate based on the gender of the entrepreneur, and other characteristics of the large majority of women-run enterprises influence the terms of credit access. It is seen that women-led enterprises tend to be smaller and newer than male counterparts, and hence obtain credit under less favorable terms (Riding & Swift, 1990; Coleman, 2000). Women-led enterprises are

1 See the literature review.
2 A woman-run enterprise is defined as having at least one woman either as a co-owner or in a key executive management role in the enterprise or both.
3 The study mandates focus on enterprises with credit requirements of USD 20,000. It is converted into INR 15 lakhs, keeping the exchange rate of 81.95 in September 2022 (when the study commenced). Adjusting for inflation and other factors elaborated in chapter 2, a conservative figure of INR 10 lakhs is considered for the study.

concentrated in less capital-intensive industries which require less funding, with limited growth potential (Federal Reserve Banks of New York, 2014), and in low productivity sectors with little technology and innovation in operations (World Bank, 2014). Similarly, it is observed that women enterprises in unconventional sectors experience difficulty in accessing credit, since these sectors cannot be adequately benchmarked against the one traditionally serviced by banks (Maheshwari et al., 2020). In addition, studies identify that women entrepreneurs confront credit constraints owing to limited visibility to investors, difficulty in navigating through complex banking and loan application procedures, and long approval times involved (Google & Bain and Company, 2019).

3. **Women entrepreneurs become 'discouraged borrowers'.**
   A discouraged borrower is a creditworthy borrower who does not apply for finance for fear of rejection (Coleman, 2000; Cavalluzzo, Cavalluzzo , & Wolken, 2002; Federal Reserve Banks of New York, 2014). Several studies have found that women are more often discouraged and cite a low credit score as a chief obstacle in applying for credit (Federal Reserve Banks of New York, 2014). Along similar lines, studies suggest that among nascent entrepreneurs, women entrepreneurs have a significantly lower probability of asking for financing. Sena, Scott, and Roper (2012) find that at the start-up stage, women perceive more substantial external financial barriers to entrepreneurship compared to men. However, the probability of asking for financing among women entrepreneurs increases with the presence of startup helpers (Kwapisz & Hechavarría, 2018).

4. **Lack of access to social networks constrains women's capacity to navigate financial institutions.**
   The ability to network is seen as an important personal skill for entrepreneurs, as social networks can pave the way for business opportunities, access to resources and advice. However, studies have found that women entrepreneurs have limited access to formal and informal networks constraining access to business opportunities and mentors, exchange of ideas, information, and informal knowledge (Campos et al., 2016; Cohoon et al., 2010; Google & Bain and Company, 2019; IFC, 2020;). It has been shown that an integrated approach where financial and non-financial services are bundled together can help women SMEs live up to their potential to contribute to the GDP. The non-financial services could address pertinent challenges and overcome systemic barriers, and simultaneously yield financial institutions positive returns on their investment (IFC, 2020).

1.3 Study Design

Objective

The study seeks to achieve the following objectives:

Understand the nature of difference in access to credit by entrepreneurs, especially women entrepreneurs in terms of barriers.

Understand characteristics of credit products/services offered by financial institutions to women entrepreneurs, their sourcing strategies, underwriting, etc.

Propose solutions within the extant underwriting process, by designing appropriate credit products/services that address the demand-side barriers of women entrepreneurs.

Research Questions

The primary survey captures data on two broad aspects across five dimensions (Figure 1):

1. **Entrepreneur and enterprise profile:** sectors of operation, and industry using two-digit national industrial classification (NIC) code, ownership and management characteristics, vintage, geographic location, balance sheets, level of employment, membership of associations, among others.
2. **Credit market experiences of the entrepreneur:** Engagement with financial institutions in the last five financial years (FY19-FY23) for credit uptake, cost and terms & conditions of credit provided by financial institutions, among others.

The supply-side perspective of financial institutions was gathered through semi-structured key informant interviews (KII). They capture information about existing credit products/services offered, underwriting and decision-making processes adopted, enablers and constraints impacting credit delivery by financial institutions, among other aspects (Figure 2).

Sampling Design

The study focuses on non-farm enterprises operating in manufacturing, services, and trade sectors across various NIC codes. Geographically, the sample is spread across the country to ensure regional diversity: Tamil Nadu (52%) and other large states like Maharashtra (9%), Telangana (6%), Karnataka (6%) and Haryana (6%), and the rest of the sample is spread across other states.[4] The sample was drawn from proprietary data shared by aggregators (incubators, members of associations, etc.) and financial institutions (past/present customers).

The surveys were conducted through a mix of in-person and telephonic interviews, depending upon the respondent's preference. The final sample consists of 856 enterprises.[5] The following approach was applied for analysing the data:

1. **Categorizing enterprises in terms of their capital requirements in FY 2023-24 as: 1) < INR 10 lakhs; 2) ≥ INR 10 lakhs.[6]**
2. **Enterprises which felt a need for capital in the last five years, FY 2018-19 to FY 2022-23.**
3. **Enterprises which applied to formal financial institutions for credit, given their stated need in step 2**

Figure 3 provides a visual representation of the sample, based on the above three steps.

Figure 1: Key Themes Explored in the Survey Questionnaire

1 Demographic characteristics

- Age
- Educational level
- Marital status

2 Enterprise management characteristics

- Legal status
- Vintage
- Level of employment
- Industry and two-digit National Industrial Classification (NIC) code

3 Enterprise financials

- Source of start-up capital
- Annual turnover and profit
- Balance sheet

4 Credit application process

- Aspects of credit market experience
- 'Non-applicant' borrowers

5 Role of social capital

- Association or tie-ups with incubator(s) and accelerator(s)

4 Other states include Delhi (5%), Gujarat (3%), Uttar Pradesh (2%), Rajasthan (2%), West Bengal (2%), the rest with less than 1% each.
5 As part of the study the research team had reached out to 5,188 enterprises, inclusive of women- and men-run enterprises, across different states. Of these 5,188 enterprises, the survey was administered to 856 enterprises that expressed interest in participating in the survey.
6 See section 2.1 for more details.

Figure 2: Key Themes Explored in the KIIs

1 Credit products/services offered to MSMEs

- Origination and/or sourcing strategy
- Outreach strategy
- Product portfolios
- Sectoral concentration of enterprises and requirements

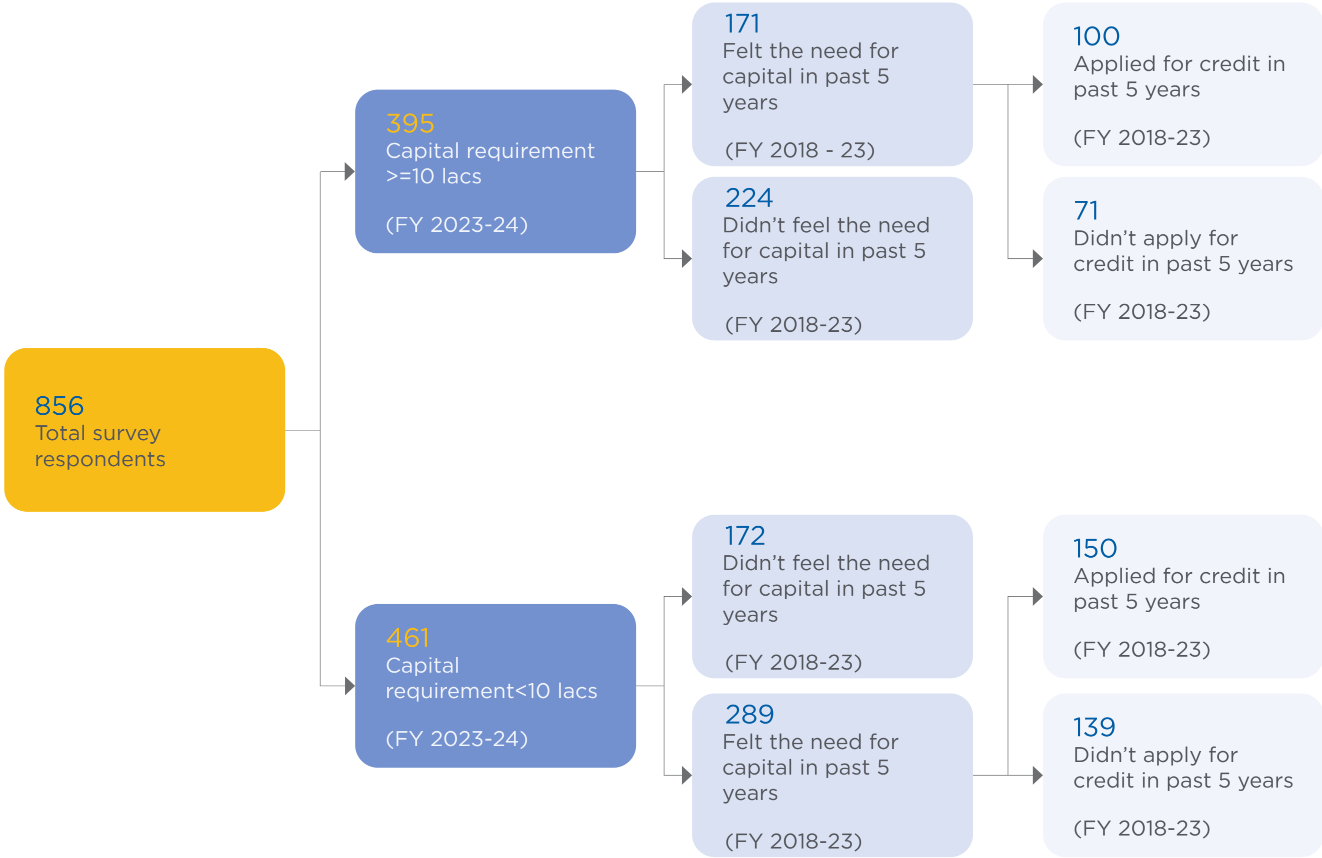
2 Underwriting and decision-making process

- Underwriting process and collateral requirements
- Nature and gender-composition of credit team

3 Constraints and enablers in credit delivery

- Potential role of Govt. schemes and/or initiatives
- Potential role of catalytic capital
- Social norms and values, and credit delivery

Figure 3: Snapshot of Sample Distribution



In line with the study objectives, chapter 2 provides the gender-disaggregated proprietor and enterprise characteristics of the 395 respondents with capital requirements of INR 10 lakhs and above. Details regarding 461 enterprises with capital requirements of less than INR 10 lakhs are provided in Annexure 1.

2. Enterprise Characteristics – Women-run and Men-run Enterprises

2.1 Gender-wise Capital Requirements of Enterprises in FY24

The sample size for the study consisted of 856 respondents. The sample has been classified into two groups:

Credit requirement in FY 24

≥ INR 10 lakh (n=395)

< INR 10 lakh (n=461)

The above categorization helps contrast the characteristics of two distinct groups of MSMEs in India.

The focus of the present study is specifically on enterprises with capital needs of INR 10 lakh or more.[7]

Table 1 provides a breakup of the sample by capital requirement and gender:

The rationale for choosing INR 10 lakh as a threshold is three-fold:

» The PMMY (MUDRA) scheme has the highest unsecured refinancing credit limit of INR 10 lakh as a distinguishing marker of micro-enterprise debt capital requirement.

» While the study mandates a focus on debt capital of INR 15 lakh and above (USD 20000) as a key constituency, it is understood that smaller enterprises create their own credit products due to credit rationing from financial service providers. Hence, the threshold has been chosen at a conservative INR 10 lakhs.

» Finally, as per RBI's working capital rule, banks are obliged to only fund up to 80% of the requirement from the borrower. Hence, the study's suggestion to focus on capital of INR 15 lakh and above from formal financial institutions has been brought down to INR 10 lakhs.

Table 1: Gender-wise Capital Requirement (INR)

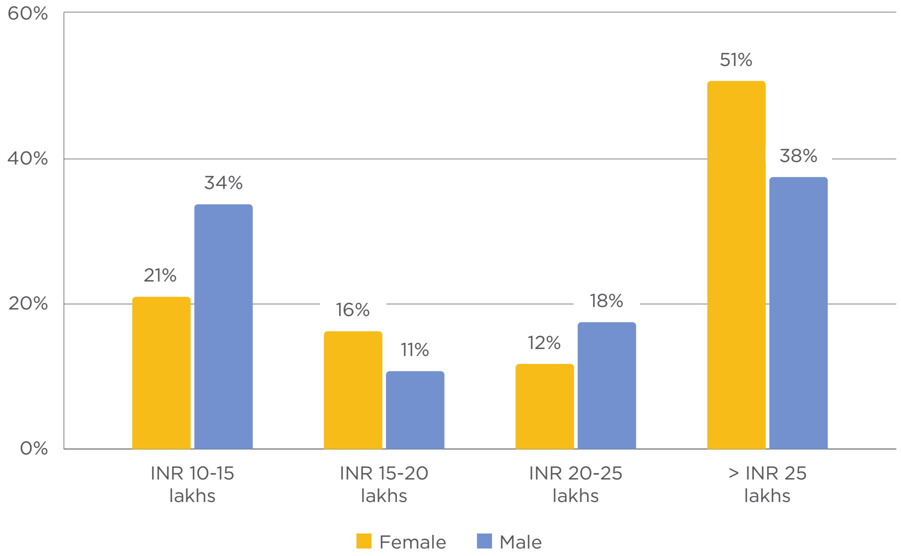
Maximum capital requirement in FY 24	Men	Women	Total
<10 lakhs	263	198	461
≥10 lakhs	210	185	395
Total	473	383	856

7 The analysis of enterprises with capital need less than INR 10 lakh is beyond the purview of the study. However, a brief analysis is provided for context and comparison in annexure 1.

Out of the 395 respondents that have a capital requirement of more than and equal to INR 10 lakhs and above, 53% (n=210) are men, while 47% (n=185) are women (Table 1 above).

Further within the group of enterprises with capital needs greater than or equal to INR 10 lakhs in FY24 (n=395), more than 50% of women-run enterprises have a capital need higher than INR 25 lakh vis-a-vis ~40% of men-run enterprises (Figure 4). This can be partly attributed to the fact that a significantly higher percentage of women entrepreneurs than men had earlier bootstrapped their enterprise, and hence need more external capital support now.[8] For instance, the initial capital for running the enterprise came from entrepreneurs' own savings in the case of 95% of women entrepreneurs vis-a-vis 86% of men.

Figure 4: Maximum capital requirement in the upcoming year (in lakhs) (N=395)



2.2 Gender-wise Operational Characteristics of Enterprises with Capital Requirements of more than INR 10 lakhs in FY24

Understanding the proprietor and firm-level profile of women- and men-run enterprises is useful to situate their capital needs accordingly. The following analysis profiles the enterprises along five dimensions:

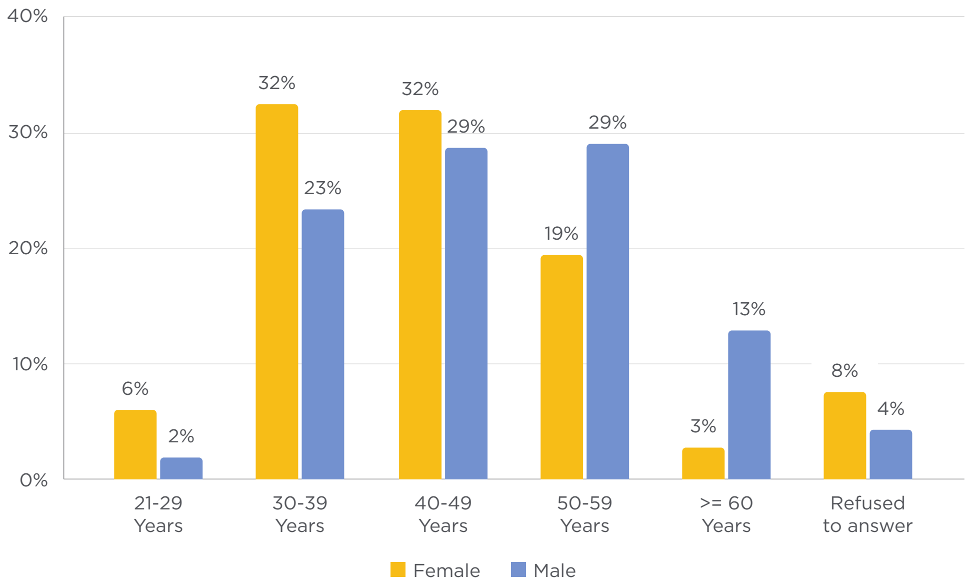
2.2.1 Age

Overall, less than 5% of the proprietors are in the age group 21-29 (Figure 5). Thus, most of the enterprises with capital needs greater than or equal to INR 10 lakh in FY24 have not been started by young entrepreneurs. This is important in the context of India's young demographic profile and policy support provided to the youth to start their own businesses.[9]

70% of women are below the age of 50 years, compared to 54% of men. The percentage of women entrepreneurs almost remains the same across the age categories 30-39 and 40-49, with a dip in the number upon reaching the category 50-59 years. On the other hand, for men entrepreneurs, the percentage remains the same across age categories 40-49 and 50-59, with the dip happening at ≥ 60 years. It could be a reflection of the following facts, singularly or collectively:

8 Based on the two sample Z test of proportions
9 Atal Innovation Mission, ASPIRE, Startup India Initiative etc. are few government of India initiatives that focus of developing entrepreneurship among young Indians

Figure 5: Age distribution of the sample (N=395)



a. Women entrepreneurs have a shorter time frame to operate their businesses successfully, compared to their male counterparts.

b. Entrepreneurship is a relatively newer venture among women entrepreneurs, unlike their male counterparts. (In the older cohort of women entrepreneurs age 50 and above, only 25% of them have a vintage greater than or equal to 7 years, compared to 45% of male entrepreneurs).

c. Given the prevalent social norms and gendered nature of care responsibilities, women between the ages of 30-50 may prefer to become entrepreneurs for more flexible work options as compared to corporate jobs.

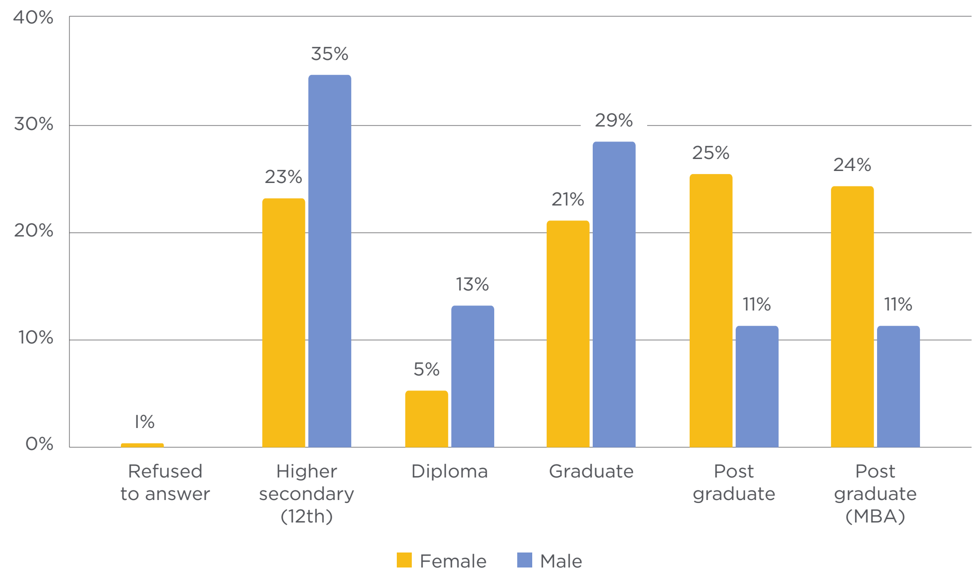
2.2.2 Education

All the entrepreneurs have completed at least their senior secondary education (see Figure 6). It is thus important to note that enterprises whose capital requirement is of a certain magnitude (≥ INR 10 lakhs) are also likely to have certain minimum educational credentials.

Pertinently, the share of women entrepreneurs is more than double the male entrepreneurs among postgraduates and MBA degree holders. 25% of female entrepreneurs in the sample are postgraduates as compared to 11% of males. Similarly, 24% of women entrepreneurs attained MBA degrees as compared to 11% of men. This is indicative of the social norms related to high barriers to entry for women, wherein they have a higher education bar as compared to their male counterparts when it comes to starting an enterprise.

Based on the two-tailed t test, there is a statistically significant difference between the average age of the entrepreneur across gender categories — while the average age of a woman entrepreneur in the sample is 42 years, the average age of male entrepreneurs is 47 years. There is no statistically significant association between gender and marital status or having children when it comes to running an enterprise. The majority of respondents in the sample are married (85%) and have children (96%), with no variation across genders.

Figure 6: Education profile of the sample (N=395)

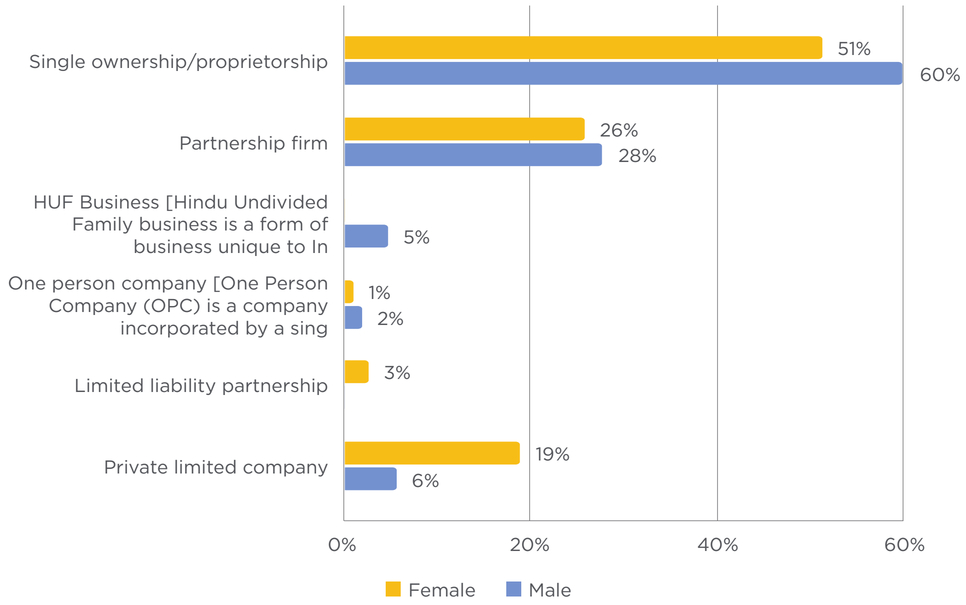


Based on the two sample Z tests of proportions, there is a significantly higher percentage of graduates or undergraduates among women than men entrepreneurs. There is thus statistically significant association between education level and gender of the entrepreneur.

2.2.3 Ownership Structure

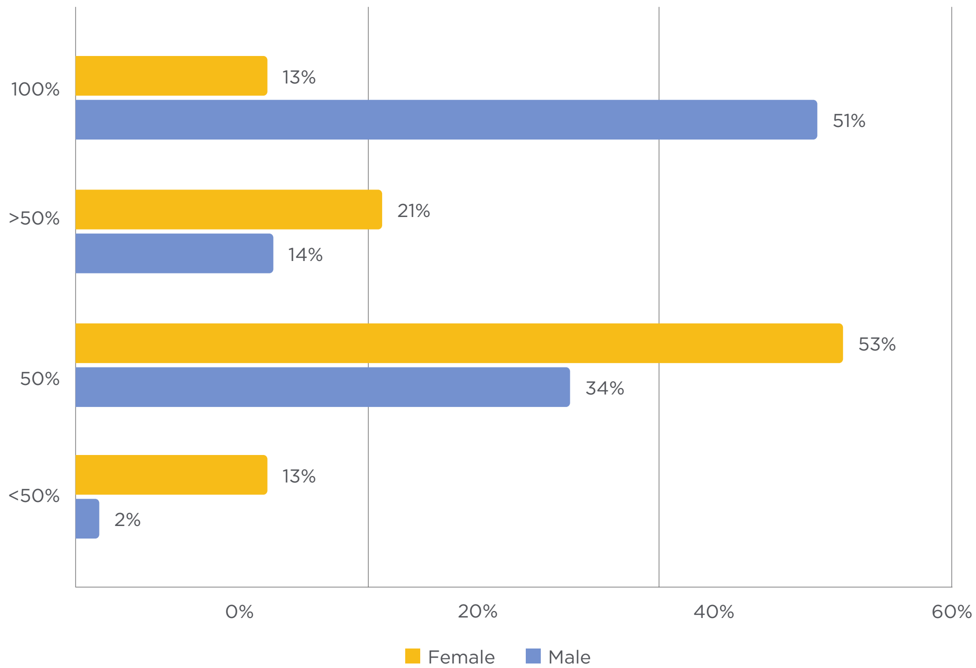
Overall, 56% (n=221) of entrepreneurs in the study run sole-proprietorship enterprises, followed by partnership firms (27%, n=106) and private limited companies (12%, n=47).[10] Across genders, women-run businesses (51%, n=95) have fewer sole-proprietorships than their male counterparts (60%, n=126) (Figure 7).

Figure 7: Ownership structure of the enterprises (N=395)



Out of 168 non-individual ventures enterprises, 80% (n=135) of entrepreneurs reported having a co-owner.[11] Across gender, 86% (n=76) of women entrepreneurs have male co-owners as compared to 73% (n=59) men with female co-owners. Further, among the co-owned enterprises, the share of women entrepreneurs is lesser than the male counterparts — 66% of women have 50% and less ownership as compared to 36% of men (see Figure 8).

Figure 8: Percentage share of enterprise ownership (n=135)



2.2.4 Sectors

Across sectors, 54% of the respondents belong to the services sector, followed by 33% from the manufacturing sector. The gender representation across sectors does not show major variation.[12]

10 The sole-proprietorships, partnership firms, and HUF business together constitute non-corporations, and the others such as limited liability partnerships, one-person company and private limited company, etc fall into the corporations category.
11 I.e. excluding 221 sole proprietorship firms and 6 One Person Companies from the total 395 enterprises
12 The distribution of sub-sectors does not add up to 100%, since the graph represents only the major sub sectors

Table 2: Sector-wise Classification of the Sample

S.no.	Sector	Sub-sector	Female (%, n)	Male (%, n)	Total (n=395)
1	Services	Personal service activities (washing, drycleaning, hairdressing etc.)	30% (23)	70% (53)	19% (76)
2	Services	Creative, arts and entertainment activities	68% (15)	32% (7)	6% (22)
3	Manufacturing	Manufacture of food products	76% (16)	24% (5)	5% (21)
4	Services	Information service activities	57% (12)	43% (9)	5% (21)
5	Trade	Wholesale trade, except of motor vehicles and motorcycles	5% (1)	95% (18)	5% (19)
6	Trade	Retail trade, except of motor vehicles and motorcycles	42% (8)	58% (11)	5% (19)
7	All other sectors	All other sub sectors			34% (135)

In terms of the sub-sectors of activity, however, there is more variation. A higher proportion of women entrepreneurs are engaged in other service activities (activities in membership organizations, repairs of personal/HH goods), food & beverages (manufacturing and services), and creative arts and entertainment activity.[13]

The Chi-square test of independence found an association between women entrepreneurs and the likelihood of their engagement in certain specific manufacturing and services businesses such as F&B, creative arts, etc.

Key informant interviews with industry experts highlighted that sectoral concentration of WSMEs is observed at the lower end of the credit/debt fund category. The prominent sectors include textiles and fashion, retail, FMCG, education, health, and rarely low capital-intensive manufacturing. As one moves up the ladder, there is representation from diverse sectors, including tech - IoT solutions, among others.

2.2.5 Vintage

The study found a correlation between business vintage and capital needs. Among the businesses with a capital requirement of more than and equal to INR 10 lakhs, 48% were in the business for over 10 years.

13 The results are statistically significant at 90% confidence level.

This was followed by 23% of businesses with 7-10 years of vintage. This suggests that most of the enterprises go through a prolonged period before their capital requirement exceeds INR 10 lakhs. Women-run businesses are younger than their male counterparts — 60% of male-run businesses have a vintage of more than 10 years compared to 33% of women-run businesses (Figure 9).

Figure 9: Vintage of the Enterprise (N=395)

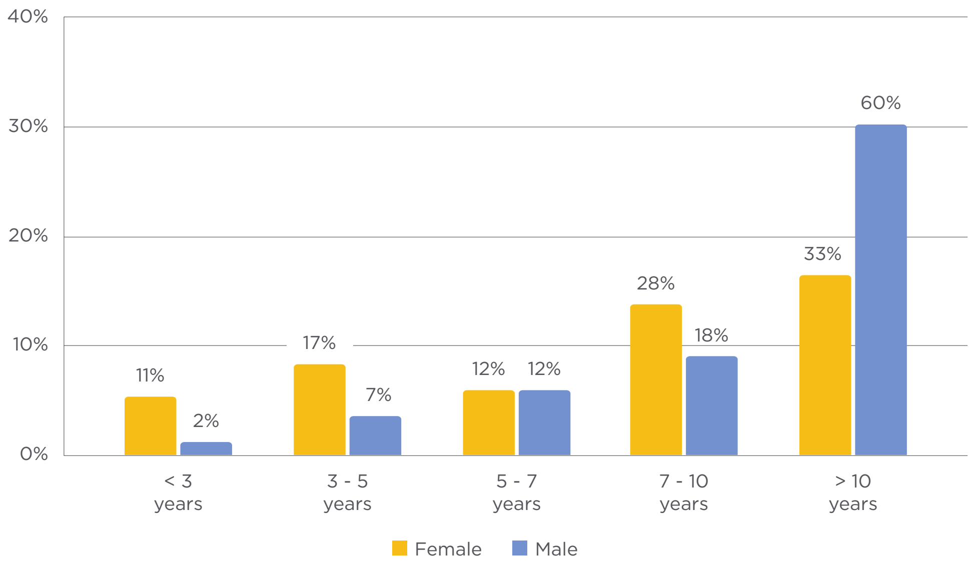
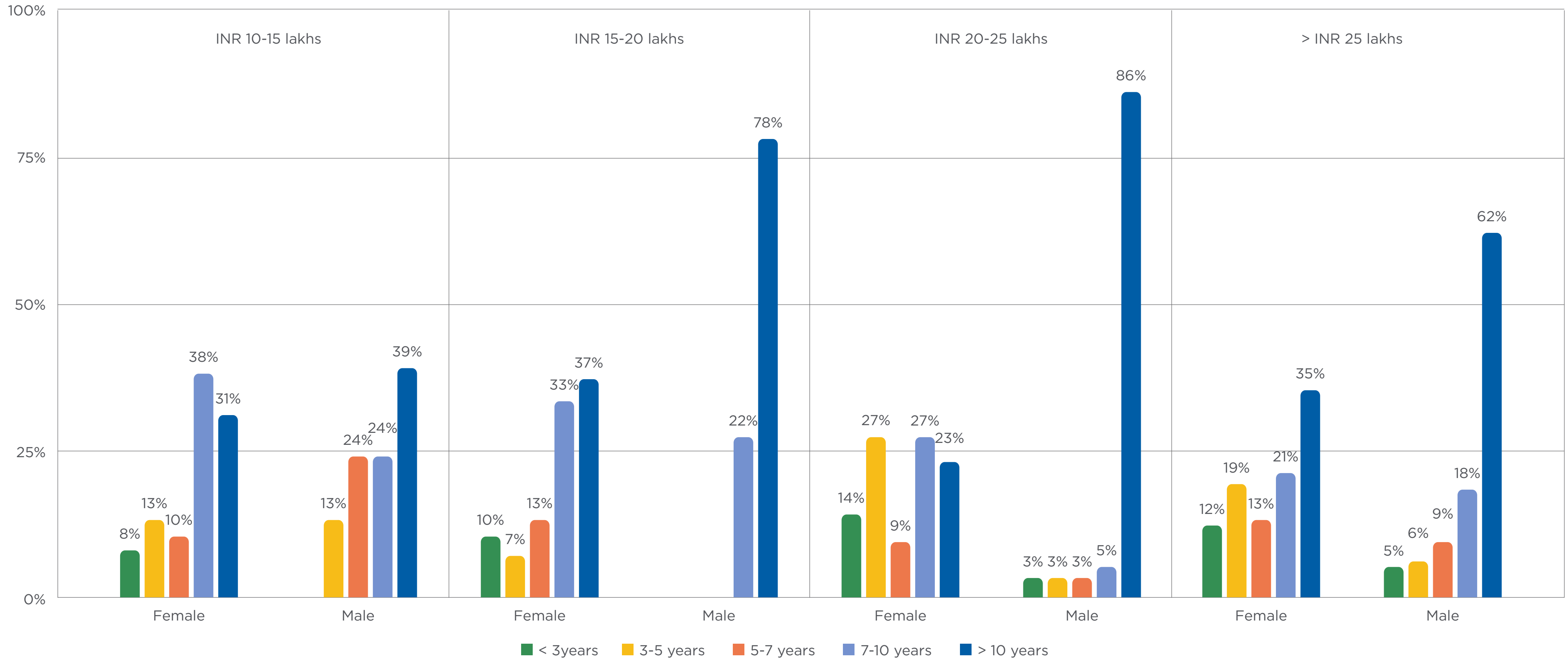


Figure 10: Credit Requirements and Vintage of Enterprises across Gender



Among women-run enterprises, the capital requirement varies less widely than men-run enterprises across vintage. For example, among the enterprises with capital needs of more than INR 25 lakh in FY24, while the number of male entrepreneurs with vintage of less than three years is 5%, it rises to 62% at more than ten years of vintage; for women, on the other hand, it rises from 12% to 35% from a vintage of three years to more than ten years.

Chapter 3 presents key findings from enterprises' engagement with financial institutions. It aims to test the hypothesis on the nature of gender-based financing gaps faced by enterprises in FY19-23. This shall augur well to understand the state of financing they may encounter as they seek capital greater than or equal to INR 10 lakh in the current financial year (FY24).

3. Access to Finance – Women-run and Men-run Enterprises

3.1 Capital Requirements and Sources of Capital

Capital requirements in last five financial years

Twin criteria are used to understand the nature of the financing gap faced by enterprises:

1. Capital requirement currently ≥ INR 10 lakhs in the financial year 2023-24 (FY24),
2. Capital requirement in the last five financial years 2018-19 to 2022-23 (FY19-23).

The first criterion defines the target segment for the study. The second criterion complements the first criteria by benchmarking with any similar capital need in the past, with five years as a good proxy, since:

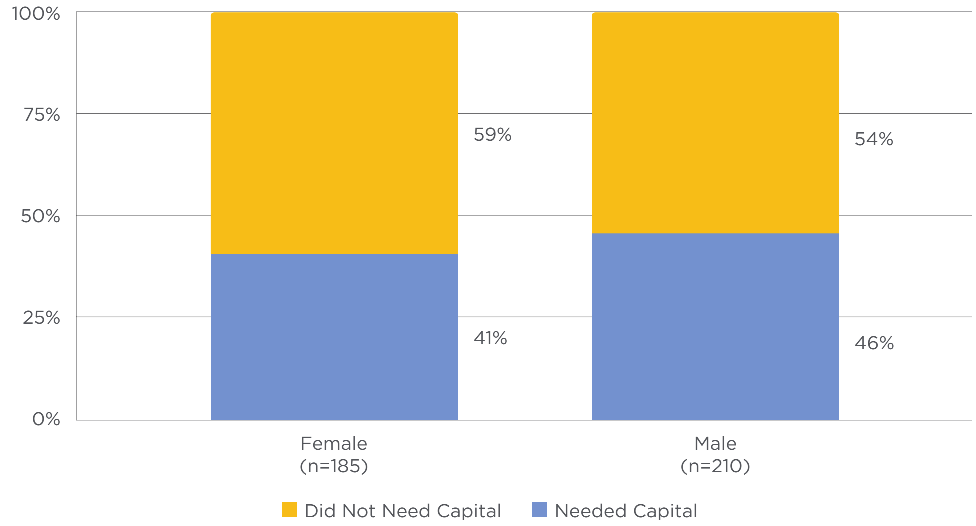
a. It ensures capital requirements at different stages of an enterprise's growth are covered

b. It helps balance out the adverse impact of the two years of pandemic.

The experience regarding the second criteria thus helps anticipate the credit-related challenges confronting the target segment, as they seek capital in the current financial year.

Figure 11 provides a snapshot of enterprises as per the twin criteria. 185 women- and 210 men-run enterprises reported capital requirements ≥INR 10 lakhs in FY24. Among them, however, only 41% (n=75) of women- and 46% (n=96) of men-run enterprises had needed capital for their enterprise in the last five fiscal years (FY19-FY23) as well. Thus, more than 50% of the enterprises, regardless of gender, did not need any external capital in the last five fiscal years, even though their current capital requirement is INR 10 lakh and above.[14]

Figure 11: Snapshot of enterprises with capital requirement in the past five years



Preferred sources of capital in the last five financial years

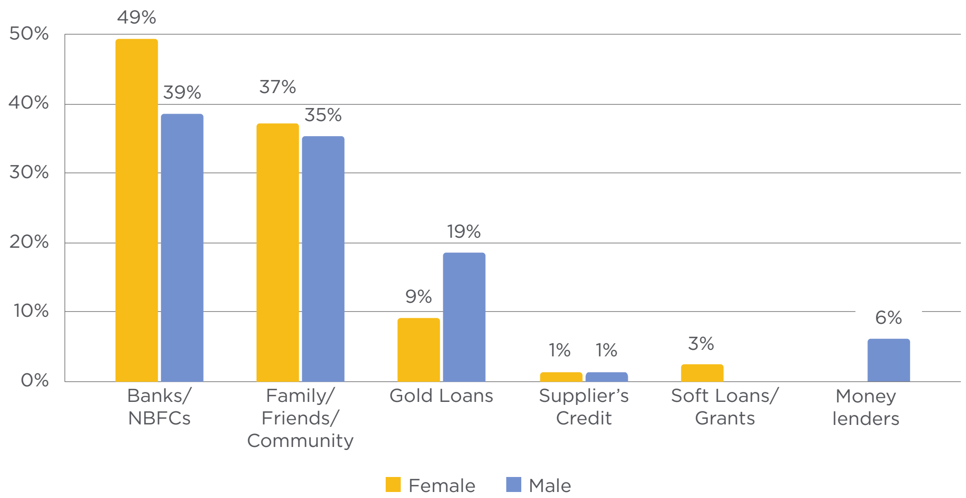
The preferred sources of formal capital can include both debt and equity, depending on the type of the business and stage of the enterprise.[15] The study however focuses only on the debt financing i.e. the enterprises seeking formal credit to meet part or whole of their capital requirement in the last five financial years.

14 110 women- and 114 men-run enterprises reported that they did not need capital for their enterprise in the last five fiscal years (FY19-FY23). The statistical analysis shows that reporting a need for capital and gender of the entrepreneur are independent of each other. Further within women-run enterprises, reporting a need for capital is associated with the sector of operation but not the legal status of or presence of male co-founders/co-owners in the enterprise.

15 Type of the business: Innovations which do not have a proven business model and require risk capital have an affinity for equity investments from venture capital/private equity actors; Stage of the enterprise: series round of equity as well as venture debt capital is determined by stage of the business captured through metrics like monthly user growth rate, operational profitability, etc.

The enterprises that needed capital in the past five financial years could seek it from informal or formal sources (such as banks/NBFCs to equity investment by venture capital or private equity firms). Figure 12 provides gender-wise details of the preference for various formal and informal sources.

Figure 12: Gender-wise First Preference among External Financing Sources



While 49% (n=37) of women-run enterprises reported a first preference for credit from banks/NBFCs, this preference decreased slightly for men-run enterprises to 39% (n=37) (see Figure 12). In contrast, the preference for gold loans among men is higher (19%) than women (9%). This is a crucial result, as gold loans are easier to access and are traditionally associated with women borrowers.[16] Finally, an almost equal share of men and women reported a preference for family/friends/community as the first preference for capital (while this is not associated with direct interest rate expense, it comes however with in-kind temporal costs).[17]

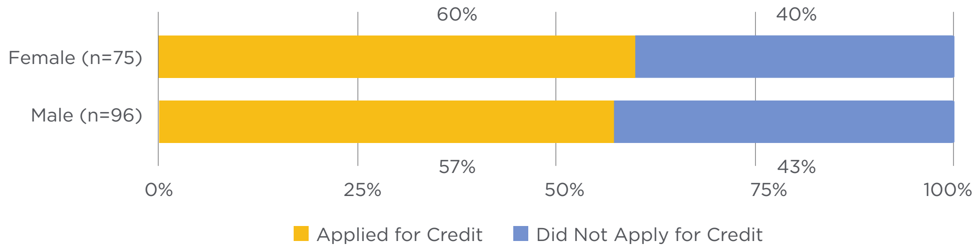
Applying for credit in the last five financial years

Not all enterprises that required credit in the last five years actually ended up applying for a loan to articulate the experience with financial institutions. Therefore, the enterprises can be split into two, each yielding useful insights:

1. Entrepreneurs that applied for credit in the last five financial years (n=100): These respondents can provide a more unbiased response in terms of what works and what does not in terms of the customer journey in the loan sanctioning process.
2. Entrepreneurs that have not applied for credit in the last five financial years (n=71): These respondents can provide insights on the following indicative parameters such as inability to take high liability risk on the enterprise balance sheet, perceived bias of rejection, the opportunity cost of the elongated loan sanctioning process.[18]

Among the 75 women- and 96 men-run enterprises that reported a need for capital in the last five fiscal years, only 60% (n=45) of women- and 57% (n=55) of men-run enterprises had actually applied for credit (see Figure 13).[19] Based on the estimates, there is no statistically significant relationship between gender and application for credit for ticket size more than and equal to INR 10 lakh.

Figure 13: Applied for Credit in Past Five Years by Gender (FY19-FY23)



16 This result calls for further research in terms of whether men have a higher propensity to pledge the gold owned by their female family members (particularly spouse) as compared to women who have lower propensity to pledge the same, despite owning it.
17 In terms of second preference for capital among women-run enterprises whose first preference was banks/NBFCs, an equal share of enterprises preferred gold loans and family/friends/community as sources. In contrast, those women whose first preference is family/friends/community, a large number of them preferred banks/NBFCs as their second preferred source followed by supplier's credit. (The reporting for the second and third preference was optional in the survey.)
18 There is also scope for the proprietors needing equity investments, rather than debt financing, and the same is not captured in the study.
19 Of the 45 women- and 55 men-run enterprises which applied for credit, 56% (n = 25) of women- and 58% (n = 32) of men-run enterprises that have applied for credit at a public sector bank at least once. Further, 33% (n = 15) of women- and 44% (n = 24) of men-run enterprises have applied at private sector banks for credit at least once in the last five fiscal years. Given that the enterprises could report information on more than one credit application, it is possible that the same enterprises may have applied at a public sector bank as well as a private sector bank. Some of the other options highlighted were co-operative banks, or NBFCs. But very few enterprises have highlighted either, irrespective of the gender of the entrepreneur.

3.2 Hypothesis Testing for Assessing the Financing Gap by Gender

Analyzing the loan application journeys of those who apply and do not apply for credit is crucial to understand the nature of the gender-based financing gap among enterprises in India. It helps identify precise pain points which can be targeted through tailored solutions. Below is the gender-disaggregated analysis conducted and reported using hypothesis testing. A hypothesis is articulated in the form of a potential pain point faced by women entrepreneurs vis-à-vis male counterparts in the credit process.

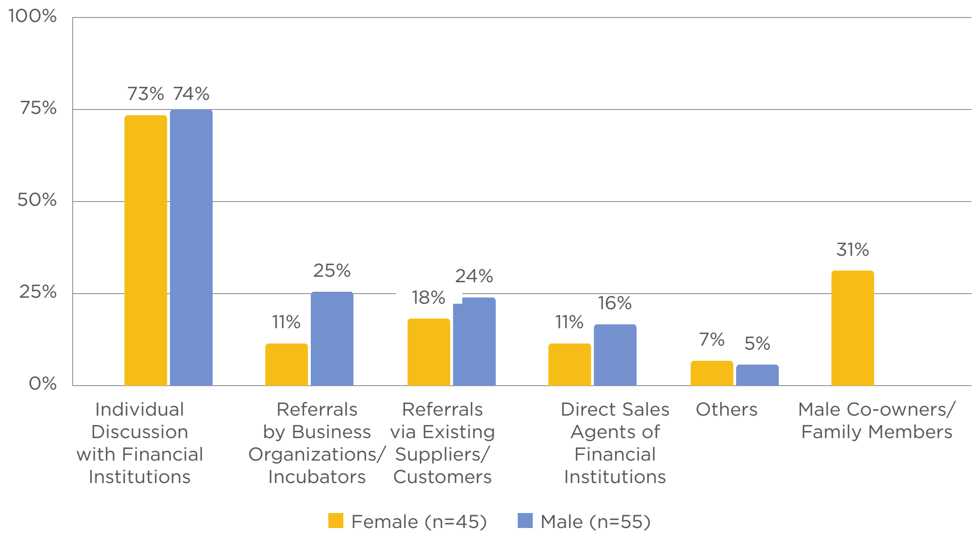
1. Credit Application Process

a. Are there any differences in the channels used by women-run enterprises for credit applications as compared to men-run enterprises?

The majority of the enterprises have applied for credit via individual discussions with financial institutions. Another channel utilized by enterprises was referrals by networks, whether formal or informal. This suggests that networks and credit applications may be interdependent. Referrals were observed to be more prominent among men-run enterprises rather than their female counterparts. Women-run enterprises either are not part of networks, formal or informal, or they not leverage these for business purposes.

Of the 45 women- and 55 men-run enterprises, over 70% of women- (n = 33) and men-run (n = 41) enterprises applied via individual discussions (see Fig 4). Another important channel is referrals, reflecting the significance of networks, whether it is membership in business associations and/or incubators, or relationships among participants in the supply chain. In addition, 31% (n = 14) of women-run enterprises rely upon male co-owners and/or family members, for a variety of reasons ranging from identification of potential financial institutions for credit applications to apply on their behalf, and to negotiate regarding terms and conditions of the credit.

Figure 14: Credit Application Process by Gender



This is an important result as it highlights that formal and informal networks play a role in facilitating the credit application process, especially in the initial stages.

Key Informant Interviews with supply-side financial institutions also corroborate that fewer women entrepreneurs directly reach out to financial institutions for debt funding, owing to preconceived notions and biases. Knowledge gaps related to products and processes coupled with saving behavior results in self-financing or depending on their male acquaintances to apply on their behalf. Hence, identifying and sourcing 'eligible' women entrepreneurs is one of the primary barriers confronting financial institutions.

Some of the strategies pursued by financial institutions to identify creditworthy women entrepreneurs are as follows:

a. Reliance on ecosystem players such as incubators, accelerators, networks, associations etc-, and enabling doorstep banking services for women entrepreneurs, or reaching out to them through outreach organizations/NGOs, industrial chambers that have a strong last-mile connection

b. Digitalization and digital partners (fintechs, loan service providers, women-focussed direct sales agents-DSAs) to reach out to women entrepreneurs

c. Adoption of co-lending models (with other banks and NBFCs) to meet the credit requirements specific to women entrepreneurs

d. Above-the line (ATL) and below-the-line (BTL) advertising and marketing campaigns targeting women entrepreneurs

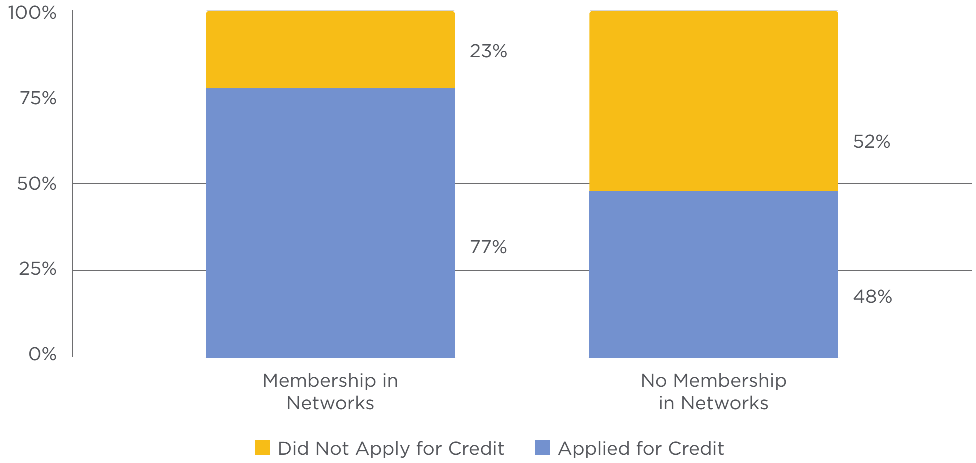
e. Reaching out to existing savings account customers who are women entrepreneurs

b. How does membership of trade/business associations influence credit applications of women entrepreneurs, as compared to male entrepreneurs?

Among women-run enterprises, we find that applications for credit are associated with membership in networks (business associations, incubators, etc.). In contrast, there is no such association for enterprises run by men.[20]

Of the 75 women-run enterprises that reported a need for capital in the last five years, 41% (n = 31) currently have membership in business associations/incubators (NSRCEL, WE-Hub, TiE, etc.).[21] Of these 31 enterprises who have membership in networks, 77% (n = 24) of enterprises have applied for credit from the banks/NBFCs in the last five years, in comparison with just 48% (n = 21) among 44 enterprises which did not have membership in networks (see Figure 15). The association is statistically significant based on the chi-squared test of independence, reaffirming the observation made above with respect to the importance of networks in the credit application process.[22] As a wide gamut of literature also points out, access to networks can be an important factor influencing women-run enterprises opportunities.[23]

Figure 15: Credit Application and Membership in Networks among Women-run Enterprises that Reported Need for Capital in Last Five Fiscal Years



c. Are their differences in the characteristics of women-run enterprises that apply for credit compared to men-run enterprises?

No statistically significant association was found between application for credit and any of enterprise-related characteristics like sector, legal status and male co-ownership.

20 Here the network is defined more exclusively, an entrepreneur is said to be part of a network if she/he is a member of a business association or incubator, or both.
21 Current membership of the business network is assumed to have been received sometime in the last five years.
22 On the other hand, of the 96 men-run enterprises that experienced a need for capital in the last five years, 65% (n = 62) of enterprises currently have membership in business associations/incubators (GAME, CII, etc) and the remaining do not. Among the 62 enterprises that have membership in networks, 53% (n = 33) of enterprises applied for credit from the banks/NBFCs in the last five years. In comparison, among the 34 enterprises that do not have membership in networks 64% (n = 22) of enterprises applied for credit from the banks/NBFCs in the last five years (see Fig 5). In essence within the men-run enterprises that experienced the need for capital in the last five fiscal years there is no association between application for credit and membership in networks.
23 These references IFC, 2020; Campos et al., 2016; Cohoon et al., 2010, along with others, point to women's limited access to networks and mentors, and highlight how it can provide invaluable information/benefits, and facilitate access to finance among women entrepreneurs.
24 Non-corporate companies are those entities where the company does not have a legal distinction from the owner

Women-run enterprises with varied profiles across sectors of operation, legal status, and presence of male co-owners applied for credit in the last five years (see Table 3). The trade sector has a higher share of women-run enterprises applying for credit than the other two sectors. Similarly, the non-corporate women-run enterprises show a higher proportion of applying for credit compared to their corporate counterparts.[24]

Table 3: Credit Application and Enterprise Characteristics among Women-run Enterprises (No. of observations in Parentheses)

Variables	Definition	Women-run enterprises seeking capital (N=75)	Applied for Credit (N=45)
Sector	Sector of operation of the enterprise	Manufacturing (n=34)	52% (n=18)
		Service (N=31)	61% (n=19)
		Trade (n=10)	80% (n=8)
Legal Status	Corporates: Enterprises belonging to one-person company, limited liability partnership, private limited company, etc. Non-corporates: Sole-proprietorship, partnership firms, Hindu Undivided Family enterprises, etc.	Non-corporate (n=56)	64% (n=36)
		Corporate (n=19)	47% (n=9)
Male co-founders/co-owners	Enterprises with male co-owners/co-founders	No (n=5)	60% (n=3)
		Yes (n=23)	61% (n=14)

Enterprises must submit a list of documents to the banks/NBFCs at the time of credit application (see Table 4). Preparation and submission of income tax returns (ITR) was one of the requirements that a lot of the enterprises felt challenging to meet, irrespective of the gender of the entrepreneur. Further, while 44% of women-run enterprises highlighted preparation and submission of detailed business/project plans, only 27% of men-run enterprises highlighted the same. On the other hand, 47% of men-run enterprises picked preparation and submission of audited financial statements as a challenging requirement, compared to 36% of women-run enterprises.

Table 4: 4: List of Documents Submitted by Gender

Documents	Female (N=45)		Male (N=55)	
	Submitted	Faced Difficulty	Submitted	Faced Difficulty
Certificate of Registration	91% (n=41)	NA	80% (n=44)	NA
Other Certificates of Business Existence: Shop and Establishment Certificate, or Tax Registrations	78% (n=35)	NA	84% (n=46)	NA
Income Tax Returns	80% (n=36)	44% (n=20)	64% (n=35)	49% (n=27)
Audited Balance Sheets, Profit and Loss Statements	56% (n=25)	36% (n=16)	38% (n=21)	47% (n=26)
Detailed Project Plan/Business Plan/Invoice	51% (n=23)	44% (n=20) [Preparation of Plans]	29% (n= 6)	24% (n=13)
		16% (n=7) [Presenta-tion of Plans to Financial Institutions]		18% (n=10)

Insights from the key informant interviews suggest that the list of documents and requirements is standardized to enable 'conservative' parameters for assessment, and does not change with the gender of the entrepreneur. The 'conservative' parameters intend to assess the sustainability of the sector of operation, the business model adopted and implemented, capability and intent to repay, the balance sheet of the enterprise, and the path to profitability and/or prospects of the project under consideration. The supply side respondents also mentioned that their customer strategy at the initial origination/sourcing stage is gender-agnostic e.g. prior experience and background (background refers to whether the entrepreneur hails from a business family or not) of the entrepreneur, industry and location under consideration as well as vintage of the enterprise.[25]

2. Underwriting and loan sanctioning process

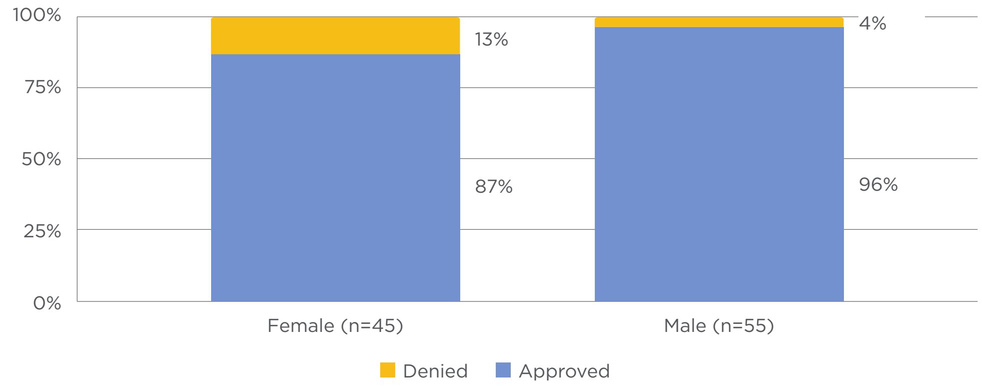
a. Are women-run enterprises less likely to be approved for credit by banks/NBFCs than men- run enterprises?

The denial of credit applications by banks/NBFCs was minimal, 87% of applications by women- and 96% of applications by men-run enterprises were reportedly approved. The approval of credit application is found to be independent of the gender of the entrepreneur (based on Fisher's exact test). Further, close to 80% of women and men-run enterprises reported that they received the entire amount of credit requested by them to banks/NBFCs.

The enterprises that have applied for credit from banks/NBFCs confront one of the three possible outcomes: 1. approved and received the full amount of credit requested, 2. approved and received a partial amount of credit requested, and 3. rejected application.

Of the 45 women- and 55 men-run enterprises that had applied for credit in the last five years, a small proportion (only six women- and two men-run enterprises) reported being denied credit in the last five fiscal years (see Figure 16). The study found no statistically significant association between denial and gender of the entrepreneurs.

Figure 16: Denial of Credit Applications by Gender of the Entrepreneur

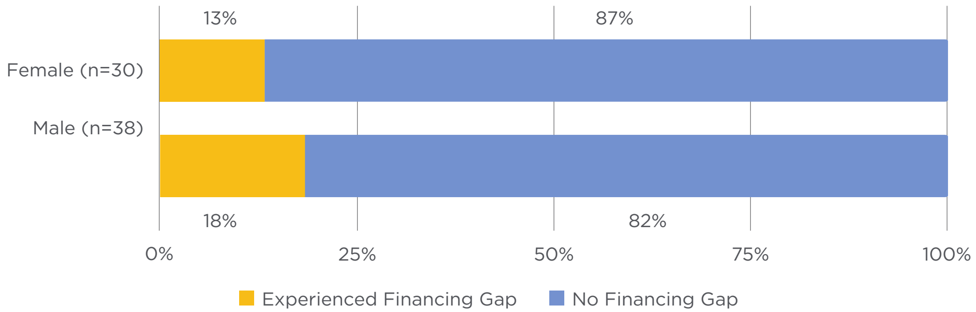


25 This supports the view from the demand-side analysis that women entrepreneurs find more hindrances in approaching the financial institutions in the first place, rather than facing barriers in the application credentials per se. Having said so, given the prevalent social norms, the gender-neutral process may not alway be gender-equitable and transformative.

Over 80% of enterprises across the two genders did not experience any financing gap or difference between the amount requested and the amount sanctioned by the financial institutions (see Figure 17).[26] Based on the statistical test, there was no association between the gender of the entrepreneur and experiencing the financing gap. This could be the result of various factors:

- Women entrepreneurs may have requested a 'conservative' amount of credit vis-a-vis their actual requirements
- Women entrepreneurs may have approached banks/NBFCs where they have long-standing financial relations, which enables access to finance
- Women entrepreneurs may have favourably negotiated with the banks/NBFCs
- Women entrepreneurs may have used a pre-approved loan or credit line offered by the bank/NBFC

Figure 17: Reported Financing Gap for Women Enterprises



This view is substantiated by the supply-side financial institutions as well. Once the entrepreneurs cross the loan origination/sourcing stage and reach the credit decision stage, then the possibility of biases based on gender is reduced owing to the deployment of credit assessment models in decision-making.[27] It is made possible as the credit models and decision-making process focus on the 'conservative' parameters mentioned above. Extending this logic, the gender composition of the underwriting teams is not a critical factor influencing the decision-making process.[28]

b. Are women-run enterprises less likely to be approved for credit by banks/NBFCs than men- run enterprises?

Not all credit-level outcomes are necessarily dependent on the gender of the entrepreneur. There is a statistically significant association between the turnaround time of the credit application and the gender of the entrepreneur. On the other hand, while the collateral requirements and gender are independent of each other, applying the same requirements across gender may have held back women entrepreneurs from engaging in the formal credit ecosystem owing to the existing social norms.

As mentioned above, out of 45 women-run and 55 men-run enterprises, 39 women- and 53 men-run enterprises had their credit applications approved in the last five years. Out of those, less than half of the enterprises submitted some form of collateral.[29] However, there was no significant association between providing collateral to

26 There are 39 women- and 53 men-run enterprises whose credit applications — at least one application — have been approved by the banks/NBFCs in the last five fiscal years. Among them, 30 women and 38 men-run enterprises have reported estimates of the amount requested by the enterprise and sanctioned by the financial institutions against their request. Based on the self-reported and inflation-adjusted value of amount requested, and sanctioned, the median value of financing gap experienced by women and men-run enterprises were INR 3,81,810 and INR 1,43,417 (in 2018-19). Though the absolute gap among women is greater than men-run enterprises, considering both amount requested and sanctioned on average, the women- received close to 90%, and men-run enterprises close to 80% of the credit requested.
27 Literature, however, suggests that despite credit models and decision making processes being 'objective', there is room for biases to creep in because the datasets used to inform the algorithms itself may be skewed. Gender biases can creep into the algorithms just by virtue of their construction. Sampling bias can occur when the algorithms are trained by datasets which inherently have a majority of data from male borrowers. Further, labeling bias wherein proxy labels that would indirectly communicate the gender of the applicant, e.g.'feminine occupations' such as doctor or nurse, may introduce prejudice. In addition to this, outcome proxy bias occurs when the assumptions related to repayment and default are based on proxy indicators like place of residence, permanent versus temporary house.
28 Some NBFCs have been able to tweak their underwriting processes, and introduce an element of subjective 'discretion' to better serve the women-entrepreneurs and women-run enterprises. For instance, in the case of women entrepreneurs whose applications have been rejected, the NBFC actively sought to understand the reasons for rejection of the applications. Based on the reasons, on a case-by-case basis made the judgment call as to whether the credit application shall be reconsidered, and whether a part of the credit requested can be approved or not.
29 Collateral refers to the secondary security that entrepreneurs submit in addition to the primary security. The ones who did not submit any collateral, may or may not have a primary asset tied to the loan as security.

access the approved credit and the gender of the entrepreneur.[30] In addition, among the 39 women- and 53 men-run enterprises whose applications were accepted, more than half of the women-run enterprises had a turnaround time of more than 30 days. Cases of long turnaround time (TAT) were significantly lesser for men run enterprises (see Table 5). A statistically significant association was observed between the turnaround time and the gender of the entrepreneur. This can be related to perhaps higher scrutiny of applications submitted by women proprietors, even while their applications are accepted.

Table 5: Terms and Conditions of Credit Received (No. of observations in Parentheses)

Variables	Definition	Female (N=39)	Male (N=53)
Collateralized loan (in addition to primary security)	Collateral was submitted as part of approved credit applications in the last five fiscal years (Yes=1)	36% (n=14)	42% (n=22)
Turnaround time (TAT) more than 30 days	TAT for credit application was 30 days or more (Yes=1)	54% (n=21)	28% (n=15)

Stakeholder interviews also highlighted that for loan applications of higher ticket sizes, the credit application process requires two kinds of security — primary (hypothecated assets) and secondary security (collateral).[31] While following the 'conservative' parameters and mandating security is important from a lender perspective, they pose severe constraints for women-run enterprises and women entrepreneurs. Given that the majority of the assets are owned or possessed by men rather than women, it becomes further difficult for women entrepreneurs to submit secondary collateral.

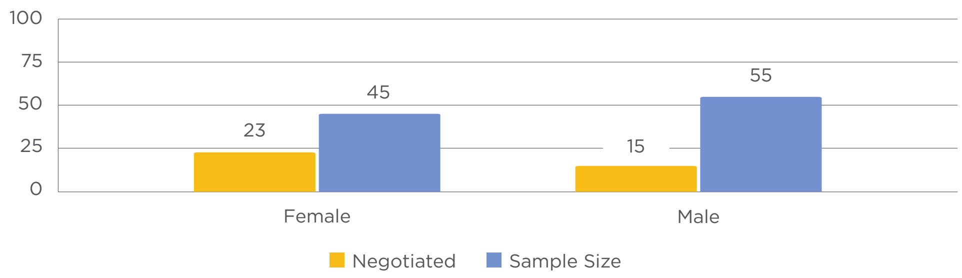
Even in instances when women own secondary collateral, societal norms may discourage risk-taking and discourage women from pledging their physical assets (land, house, gold, etc.). Financial institutions, however, can provide credit without collateral security (or partial guarantee) if it is covered under CGTMSE. The decision is discretionary and depends on the branch manager of the institution under consideration.

c. Are women-run enterprises less likely to negotiate? If they do negotiate, how 'successful' are these negotiations?

There is a statistically significant association between the gender of the entrepreneur and negotiations with financial institutions. Negotiation does not automatically imply that the financial institutions and the entrepreneurs agree on a mutually satisfactory outcome.

Of the 45 women and 55 men-run enterprises that had applied for credit in the last five years, women-run enterprises reported negotiating with bank/NBFCs three times more than their male counterparts during their credit application journey regarding interest rates, processing fees, prepayment charges, missed EMI fees, etc. (see Figure 18).[32] The study finds that there is correlation between the decision to negotiate terms with financial institutions and the gender of the entrepreneur.

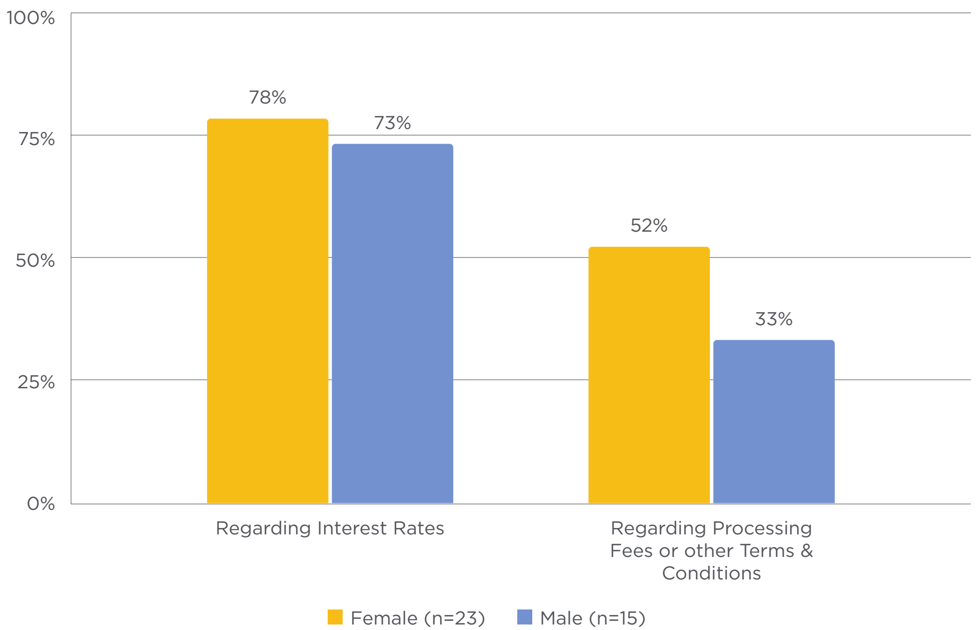
Figure 18: Credit Application and Negotiation with Financial Institutions by Gender (Count)



30 10 women and 15 men reported submission of business assets/equipment as collateral. Some of the other kinds of collateral were business assets/equipment, personal, and/or commercial real estate. However, the responses in general were limited as it was an optional response.
31 The threshold ticket size beyond which financial institutions demand security may vary across institutions. The primary security refers to the hypothecated asset(s) and the secondary security refers to the collateral.
32 23 women 15 of men-run enterprises reported negotiating with the banks/NBFCs

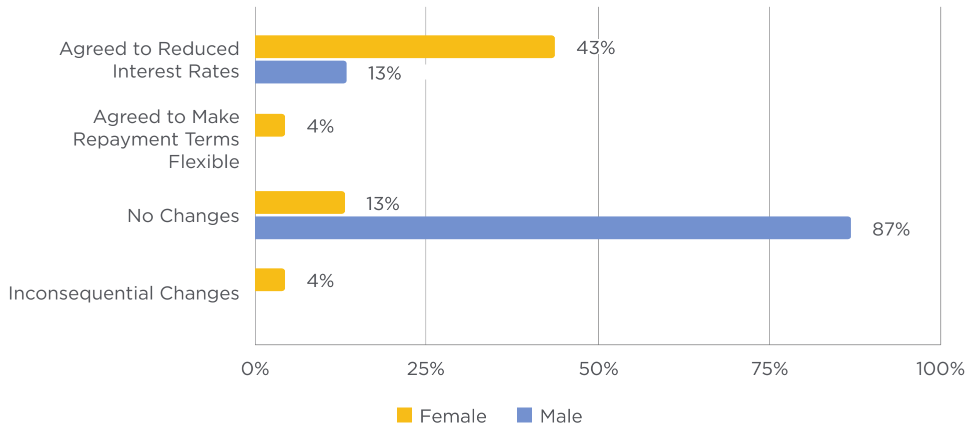
Among the 23 women- and 15 men-run enterprises that reported negotiating, the majority negotiated interest rates with banks/ NBFCs (see Figure 19).[33] Insights from key informant interviews and secondary research suggest that women negotiate interest rates when the rates offered include a mark-up to the standard rates advertised or if they are not able to avail the promised subsidy or a discount for women entrepreneurs. Additionally, a slightly higher percentage of women-run enterprises negotiated for reduced processing fees or other different terms and conditions.

Figure 19: Negotiation Motives by Gender



While close to half of the women-run enterprises reported that the banks/NBFCs agreed to reduce interest rates, a very small number of men-run enterprises reported so (see Figure 20).On the other hand, the majority of men-run enterprises reported that they were offered little/no changes as compared to women-run enterprises.[34]

Figure 20: Outcome of Negotiation Strategy by Gender



The underlying factors for the negotiation to ensue could be the sector of operation, legal status, presence of male co-founders/co-owners, and membership in networks. However, the study observed that there is no statistically significant association among women-run enterprises between negotiation with banks/NBFCs and any of these characteristics (see Table 6).

33 18 women and 11 men reported that they negotiate interest rates with banks/NBFCs.The enterprises were allowed to select multiple options as their negotiation strategy with financial institutions. The study, however, has not focused on usage of offers from other banks/ NBFCs as a negotiation strategy while applying for credit.

34 10 women run enterprises, 02 men run enterprises reported that banks agreed to reduce the interest rates; the lack of data on credit terms and conditions prior to the negotiations makes it difficult to identify the reasons behind the observation, particularly wrt to women enterprises. 13 men compared to 03 women-run enterprises reported that they were offered little/no change in the interest rate.

Table 6: Negotiation and Characteristics of Women-run Enterprises (N=45)
(No. of observations in Parentheses)

Business characteristics	Classification of characteristics	Negotiated with Financial Institutions
Sector	Manufacturing (n=18)	44% (n=8)
	Service (n=19)	47% (n=9)
	Trade (n=8)	75% (n=6)
Legal Status	Non-corporate [Sole-proprietorship, partnership firms, HUF] (n=36)	56% (n=20)
	Corporate [One person company, LLP, Pvt ltd company] (n=9)	33% (n=3)
Enterprises with male co-founder(s)	No (n=3)	33% (n=1)
	Yes (n=14)	43% (n=6)
Membership in networks	No (n=21)	48% (n=10)
	Yes (n=24)	54% (n=13)

3. Non-application for credit and the 'discouraged borrower'

Are women-run enterprises more likely to be discouraged borrowers than male run enterprises?

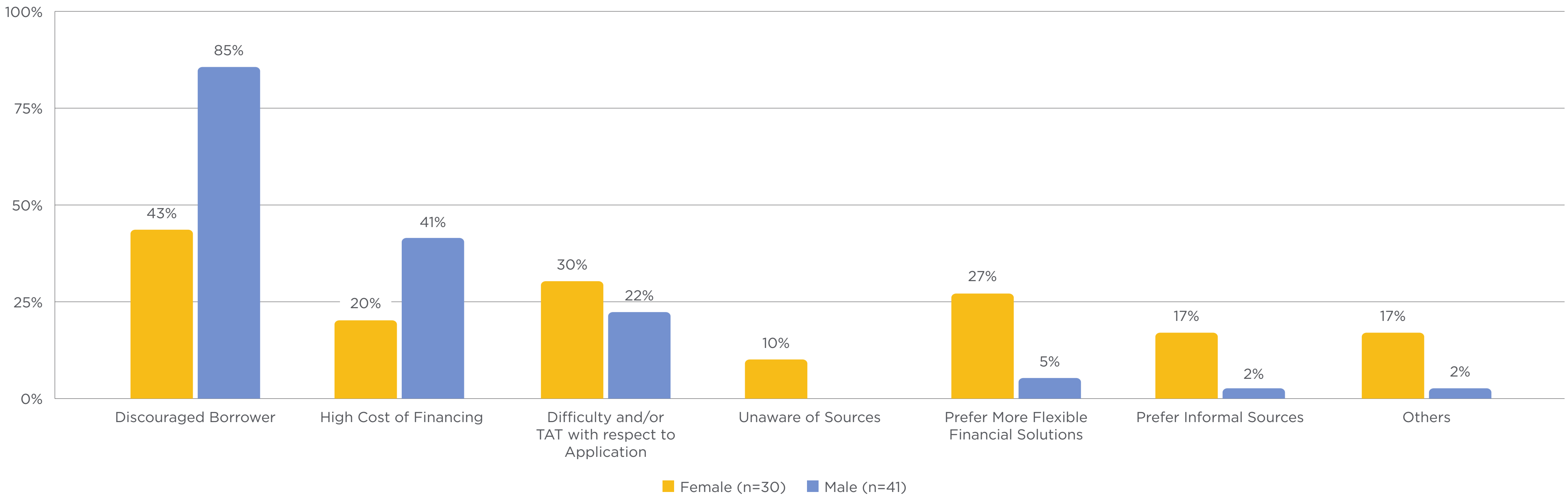
Among the enterprises that reported the need for capital in the last five fiscal years, being discouraged emerged as a major reason for not applying for credit. Further, there is an interdependence between the gender of the entrepreneur and being discouraged from borrowing.

Not all enterprises that experienced a need for capital in the last five fiscal years have applied for credit to meet part or whole of the capital requirement. Of the 75 women- and 96 men-run enterprises that experienced the need for capital, 40% (n=30) of women and 43% (n=41) of men-run enterprises did not apply for credit (see Figure 13 above).

Discounting the possibility of such enterprises seeking equity infusion, being 'discouraged' emerged as a major reason for not applying for credit, at least among men-run enterprises.[35] Such enterprises believe that they cannot meet the loan product eligibility criteria and other stringent requirements and/or their loan application

35 See section 1.2 on literature review for a commentary on 'discouraged borrowers'

Figure 21: Reasons for Non-application for Credit by Gender (multiple response)



request would be turned down by the banks/NBFCs. Unlike the women-run enterprises, a greater percentage of enterprises run by men highlighted being discouraged as one of the reasons for not applying for credit. Of the enterprises that felt a need for credit, yet did not apply, 85% (n=35) of men-run reported being 'discouraged', while only 43% (n=13) of women-run enterprises highlighted it as a reason (see Figure 11). In essence, the gender of the entrepreneur and being 'discouraged' are associated with each other based on a chi-squared test of independence.

Apart from being 'discouraged' these enterprises pinpointed difficulty in and/or turnaround time of credit application, and high cost of credit as some of the other causes (see Figure 21). Across genders, the number of men who pinpointed high cost of credit as the reason was more than double of the women who reported so.

On the other hand, a similar proportion of men and women run enterprises reported difficulty in and/or turnaround time (TAT) of credit application as the reason for not applying for credit. Additionally, a greater proportion of women-run enterprises preferred finance sources that are more flexible than the credit provided by banks/NBFCs than men-run enterprises.[36]

As highlighted in the section on application for credit, given the efforts made by the government to encourage credit delivery and entrepreneurship, it is important to identify the reasons why these enterprises did not apply for credit under any of the schemes. More than half of the men-run enterprises highlighted that they did not apply for credit under any schemes. The number was lesser in case women run enterprises that did not apply for credit under any scheme.[37]

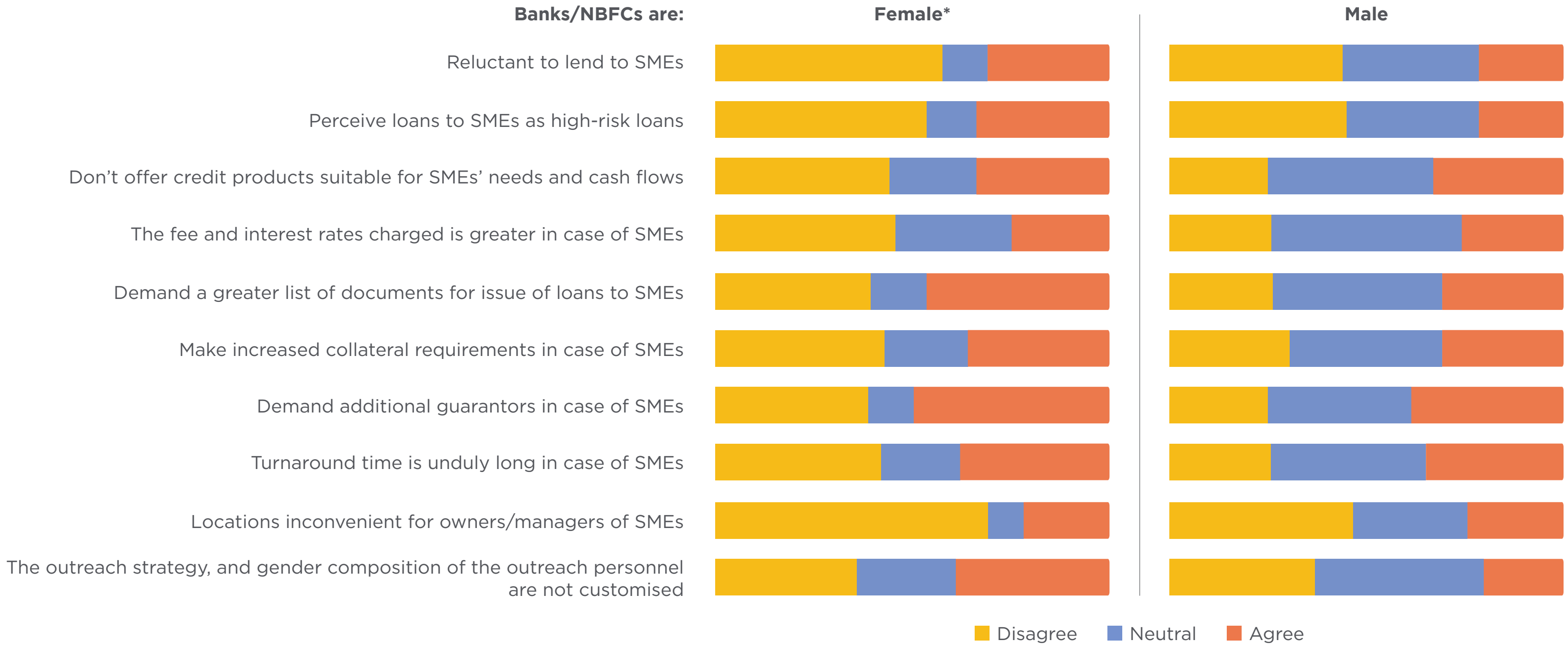
36 6 women and 17 men found the cost of credit to be high. 9 women and 9 men reported difficulty in turnaround time of credit application as the reason. 27 men run enterprises and 11 women run enterprises did not apply for credit under any scheme.

37 Among these 27 men-run enterprises, while 23 highlighted difficulties in the application process, 14 cited conditionalities and 11 reported documentation requirements, as some of the other reasons. On the other hand, among the 11 women-run enterprises the response was split closely between all three; 8 reported conditionalities, 7 highlighted difficulty in application process, 6 cited documentation requirements, as reasons for not applying for credit under of the schemes

3.3 Proprietors’ Perceptions about Financial Institutions

Respondents were asked about their perceptions related to various supply-side practices. The responses were recorded on a scale of 1-10. The figure below provides a snapshot of responses (in percentages) of male and female entrepreneurs across the statements.

Figure 22: Response to Perception Statements about Lending Practices of Financial Service Providers across Genders



***Statements to women were posed in relation with their male counterparts, while those with men was related to SMEs in general**
Score range 1-4 were clubbed to become disagreement, 5-6 - neutral, and 7-10 agreement category

In spite of experiencing a need for capital, some women and men-run enterprises reported not applying for credit from banks/NBFCs. It is a cause of concern, because these enterprises have not reported preference for other formal sources of external financing as well. So if these enterprises are to act as the engines of economic growth, they shall be ideally brought into the formal credit ecosystem. Further, it is important to deepen and improve the access to and use of appropriate credit products by enterprises that are already part of the ecosystem. In this scenario, these enterprises’ explicit perceptions and biases play an important role.

a. Financial Institutions’ Attitude to SMEs and women SMEs

Over 40% of male entrepreneurs in the sample were of the view that financial institutions were neither reluctant to lend to nor perceive credit to SMEs as high-risk. This view was echoed by the majority of women entrepreneurs in the sample as well, stating that institutions were neither reluctant to lend to women SMEs nor perceive credit to women SMEs as high-risk compared to their male counterparts.

Women-run enterprises across the board (irrespective of whether they have applied for credit or not), were of the view that financial institutions are neither reluctant to lend to nor perceive credit to women-SMEs as high-risk in comparison to men. Additionally, the opinion of financial institutions regarding their products is neither influenced by the gender of entrepreneur nor the process of credit application is designed in a biased manner. Further, among the enterprises that experienced a need for capital but did not apply for credit, over 40% of enterprises had reported family/friends/community as the first preference for capital in the last five fiscal years.

b. Credit Application Journey of Enterprisess

b.1. Suitability of Credit Products, Interest Rates & Applicable Fees
Over 40% of men-run enterprises adopted a neutral position about the suitability of credit portfolio available to SMEs and magnitude of interest and fees charged by the financial institutions. On the other hand, over 40% of women-run enterprises opined that the credit products offered by the financial institutions are suitable for women SMEs' needs and cash flows and that the interest rates and fees charged are not higher than their male counterparts.

While 42% of applicant women-run enterprises opined that the offered credit products are suitable for women SMEs' needs and cash flows, 46% of the non-applicants also reported so. In addition, 40% of non-applicants had stated that the offered credit products are not suitable for women SMEs' needs and cash flows, and the majority of these enterprises also cited being 'discouraged' as a reason for the non-application of credit in the last five fiscal years. However, the study does not find a statistically significant association between the perception of credit products and application for credit. With respect to interest rates and fees charged by the banks/NBFCs for lending to women SMEs, a majority of non-applicants disagreed that it is higher than the men SMEs. Nonetheless, there was no clear majority among the applicants on the issue, it was divided equally between disagreement and neutrality. All the same, an association is found between the perception of interest rates and fees, and credit application based on chi-square test of independence.

b.2. Documentation Requirements
43% of men-run enterprises adopted a neutral position about the documentation requirements being greater for SMEs. On the other hand, 46% of women-run enterprises were of the view that banks/NBFCs demand more compliance documents from women SMEs in comparison to men counterparts.

Among women-run enterprises, while 50% of the non-applicants disagreed, over 45% of the applicants agreed that the documentation requirements are higher. Within the applicants, the majority had also reported difficulty with one or the other financial documentation required in the application process. A statistically significant association is found between the perception about documentation requirements and credit application.

b.3. Collateral & Additional Guarantee Requirements
39% of men-run enterprises adopted a neutral position w.r.t collateral requirements made of SMEs. On the other hand, 39% of enterprises agreed with the statement that the institutions demand additional guarantors in the case of SMEs. 43% of women-run enterprises did not think the collateral requirements made to women SMEs were greater; however, nearly the majority of the enterprises agreed that additional guarantees were demanded from women SMEs in comparison to their male counterparts.

Among women-run enterprises, while the majority of the non-applicants disagreed, 38% of the applicants agreed that the collateral requirements are higher. A statistically significant association is found between perception with respect to collateral requirements and credit applications based on chi-squared test of independence at a 10 percent significance level. However, the perception about additional guarantees and credit application was independent of each other.

b.4. Turnaround Time for Credit Application
39% of enterprises run by men adopted a neutral position with respect to the statement that the turnaround time is unduly long for SMEs, for enterprises run by women, 38% women entrepreneurs agreed while 42% disagreed that the turnaround time was unduly long for women SMEs in comparison to male counterparts.

No statistically significant association exists between the perception and credit application among women-run enterprises. Given the finding from the enterprise-level data that there is a statistically significant association between turnaround time being greater than 30 days and the gender of the entrepreneur. Majority of the applicants who disagreed with having faced a long turnaround time, also reported a turnaround time greater than 30 days in the survey.

c. Accessibility of Financial Institutions

47% of men-run enterprises thought that the banks/NBFCs were at locations convenient for owners/managers of SMEs. Similarly, 42% of men-run enterprises expressed a neutral opinion about the outreach strategy of banks/NBFCs. Close to 70% of women-run enterprises opined that the banks/NBFCs were at locations convenient for owners/managers of women SMEs compared to men SMEs. On the other hand, 39% of women-run enterprises agreed that the outreach strategy is not customized to serve women SMEs in comparison to men SMEs, and the number of those who disagreed is slightly higher.

Irrespective of whether they applied or not, majority of the women-run enterprises opined that the financial institutions are located at convenient locations. On the other hand, with respect to outreach strategy while 50% of the non-applicants opined that it is not customized for women SMEs, 44% of applicants stated that it is. Additionally, a statistically significant association is found between the perception about location and credit application at a 10 percent significance level, but not between credit application and perception of the outreach strategy. Yet, the opinions expressed by women-run enterprises about the outreach strategies coupled with the supply-side perspective that it is difficult to identify and source 'eligible' women entrepreneurs, point towards the need for improvising and making the strategies more gender-sensitive.

4. Recommendations and Way Forward

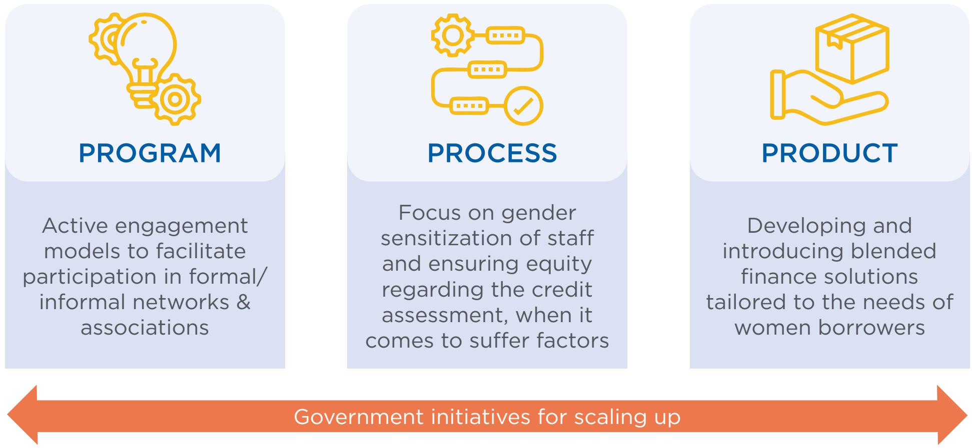
The success of the microfinance movement over the last three decades in India and globally is testimony to the credit-worthiness of women as borrowers. Learnings and inspiration can be drawn from it to address the credit gaps for women-run enterprises with larger businesses and credit needs. **As per an IFC (2019) report, women customers of public sector banks accounted for 4 percent of NPAs, lower than the overall NPAs registered at 6.2 percent. Women were found to be more loyal customers, as they had fewer banking relationships when compared to their male counterparts.** With unmet credit requirements to the tune of INR 1.95 lakh crore among registered and unregistered women MSMEs in India (IFC, 2019), this segment offers a tremendous untapped market opportunity for financial service providers.

In this section, we suggest programmatic, process and product-level recommendations for financial institutions and other ecosystem players to improve credit uptake among women-run enterprises in India. We also outline broad recommendation areas for targeted policy action (see Figure 23).

4.1 Program-level Recommendations for Financial Institutions

> Proactive outreach and engagement models and partnerships with intermediary organisations are key to facilitate women's participation in formal/informal social networks and associations.

Figure 23: Snapshot of recommendations at three levels



A key finding of the study is that referrals by formal and informal networks is a significant channel utilised to access credit This suggests that membership in networks and credit applications may be interdependent. **Among women entrepreneurs, 77% of those who were part of networks applied for credit, while only 48% among the women who were not members of any of the networks applied.**

Literature highlights that access to networks, membership in associations form the core of active entrepreneurship. Engagement through membership in associations helps build business contacts, and provide further access to formal business networks that open opportunities for mentorship and peer support. Facilitation of network membership, both formal and informal, allows for better access to information on business services, policies, regulation, taxation etc.

WSMEs have also expressed their need to get connected with networks (IFC, 2022). Being part of networks enhances their confidence and ability to learn from each other, and remain updated with the sectoral

Access to Social Networks Enhances Firm Performance

A recent WWB study based in Kenya suggested a relationship management with women entrepreneurs, coupled with non-financial business support services. Kenya Commercial Bank through their Bishara "Business" Club offeres a variety of services like conducting seminars, workshops, business trips, networking opportunities. The clubs further facilitate negotiations for forex rates, a corporate credit card for eligible customers, and personalized banking servicessuch as a dedicated queue at branches.

trends. Individuals with fewer social connections are not only deprived of ongoing trends, but also put them in a position of disadvantage in the labor market.[38]

There is further evidence that heterogeneity of the group improves financial outcomes for poorer members, with the better off members guiding and mentoring others.[39]

An India based example of network association for women is that of Kudumbashree. Kudumbashree is a community network in the state of Kerala, and is structured along the three tiers of Neighbourhood Groups at primary units, Area Development Societies (ADS) at ward level, and Community Development Societies (CDS) at the local government level. The focus is to enhance access to peers, thus helping them to build a support platform outside of personal networks, in addition to the opportunity to seek guidance from mentors. It is one of the largest women's networks in the world.

Aggregator platforms and facilitation agencies can play a key role in this regard. A report by IFC goes a step ahead in identifying the two categories of intermediary players and their role in supporting WSMEs:

a. Corporations facilitating business partnerships across the supply chain to provide market linkages

b. Trade associations, NGOs, and women forums for providing capacity building and advisory services tailored to the needs of WSMEs

Therefore, in order to meet the goal to increase access to credit for women entrepreneurs, active engagement to facilitate membership in associations and formal/informal business networks is key.

4.2 Process-level Recommendations for Financial Institutions

Focus on gender sensitization of staff at different levels and ensure equity in credit assessment and processing of applications, when it comes to softer factors like turnaround time (TAT), negotiations regarding application of government sponsored subsidy schemes for women entrepreneurs.

Literature suggests that WSMEs face an unconscious bias from financial institutions. Loan applications often require a male co-signee which makes women dependent on their family members, who may or may not explicitly stand in support of the woman's business.[40] Our study findings are aligned with the insight wherein 31% female respondents applied for credit through their male co-owners. Additionally, among the respondents whose loan application was accepted, 54% women reported having a turnaround time of more than 30 days. On the contrary, only 28% of men reported having such a long turnaround time. To complement this, 38% women agreed that the turnaround time to process the applications was unduly long in case of women.

39% women entrepreneurs agreed that the outreach strategy and personnel were not customized to their needs. 46% women entrepreneurs agreed that the demand for documents is higher for WSMEs as compared to their male counterparts.

38 https://jstor-krea.refread.com/stable/pdf/202051.pdf?refreqid=fastly-default%3Ac95f509376398218e70630bb2dbc3691&ab_segments=0%2Fbasic_search_gsv2%2Fcontrol&origin=&initiator=search-results&acceptTC=1
39 https://www.3ieimpact.org/sites/default/files/2023-06/Using-social-network.pdf
40 https://www.ifc.org/wps/wcm/connect/ca5c0868-e89d-4b43-ace5-8a702ed29b25/Financial+Inclusion+for+Women-owned+MSMEs.July+31.pdf?MOD=AJPERES&CVID=mOK28X8
https://www.ifc.org/wps/wcm/connect/2da6ccb4-5f11-4c25-8937-5a78ed26e9ce/Opportunities-and-Constraints-of-WVSEs-in-India.pdf?MOD=AJPERES&CVID=nZG21I0

IFC, Habibi Bank Limited undertake Gender Intelligence Training Program in Pakistan

Gender training led to positive gender awareness among trained population as compared to the untrained population.

Trained Officials exhibited positive outcomes wrt support for women and their confidence level. Indicators included improved perception regarding equal workplace, and improved confidence level of women.

Source: IFC (2017)

A WWB study (2020) highlighted the need for layered interventions for training bank managers to facilitate a well-rounded perspective of customers' needs:

a. **Customer relationship training:** WWB trained over 500 relationship managers on topics such as approaching and understanding the customers, effective communication and selling and cross selling of products.

b. **Assigning staff for specific customer segments:** the Kenya Commercial Bank case study suggests that assigning staff to specific customer segments has proved effective in increasing customer loyalty since the staff took ownership of the bank's business goals.

These supply-side gaps can be bridged by focusing on gender sensitization of personnel, to nurture an understanding of the socio-cultural and structural barriers faced by WSMEs and tap into the underserved segment. Training can focus particularly on factors such as improving the loan turnaround time, reducing the number of bank visits, among others. Such a multi-level organizational strategy and improved inter departmental communication can enable more inclusive program implementation.

41 Dalberg, Closing the Gaps:Financing Pathways for serving the Missing Middle, 2020

4.3 Product-level Recommendations for Financial Institutions

Blended finance solutions tailored to the heterogenous profiles and needs of women enterprises can unlock a continuum of capital for financial service providers and other ecosystem players.

There is a need to consider the segmentation of MSMEs according to their customized financing needs, since a significant portion of MSMEs still lack access to credit. Of the 75 women- and 96 men-run enterprises that experienced the need for credit in the last 5 years (FY 2019-23),

US$50Mn Loan Guaranty Program with USAID, and DFC

*USAID and the US International Development Finance Corporation (DFC) have collaborated to sponsor a **$50 million loan guarantee program in partnership with Kotak Mahindra Bank,** a private sector lender in India. The program aims to enhance access to finance for women borrowers and MSMEs in India. The program will be dedicated to **women-led or managed MSMEs, as well as MSMEs that employ a certain percentage of women or contribute to women's empowerment through their products or services.***

*The initiative is supported by **Vivriti Capital,** which will provide a $1 million first loss guarantee. It will additionally offer extensive analytical and sourcing assistance through its debt platform, **Credavenue.***

Source: IBFC (2021)

40% women and 43% men-run enterprises did not apply for credit. The reasons reported for not applying included fear of rejection, and inability to meet credit requirements. When asked for their perceptions around credit products, an equal number of men (34%) and women (33%) agreed that banks and NBFCs do not offer suitable credit products. 46% and 50% women agreed that a greater list of documents and additional guarantors were required as compared to their male counterparts, respectively.

Collaborative for Frontier Finance suggests that different business models and stages of the enterprises affect the type of financing needed and provided to them. While some of the enterprises need a credit line, others may need supply chain financing/working capital to stock additional inventories or tide over pending trade receivables, still others may need light asset financing/hypothecation, and finally others may need long gestation capex financing for growth stage of the enterprise. Additionally, some of the enterprises operate in niche sectors and/or be nimble start-ups, which require different risk assessment strategies and provision of mezzanine capital facilities.[41]

To account for this heterogeneity, a continuum of blended finance solutions that combine different financing instruments, customized for the stage of the enterprise and business model need to be adopted. The continuum can include grants on and end, and debt and mezzanine financing, on the other end. It can thus bring together multiple actors alongside traditional financial institutions to reduce the inherent risk in capital allocation. Financing pathways bringing such multiple actors together can take different forms. As defined recently by the impact investor council, such a blended finance approach can bring catalytic capital from philanthropic and multilateral sources to increase private sector participation (IIC, 2023). Four common blended finance instruments are currently in use in India:

a. **Returnable Grants** are a financial tool designed to combine the advantages of grant capital with a loan structure. The borrower obtains a loan without any interest charges, and their responsibility to repay is solely based on moral grounds. When the loan is returned, the grant capital becomes part of a revolving fund, allowing for its redistribution. This mechanism generates significant leverage on the initial grant capital, generating periodic returns for the funders. Eg: the REVIVE Alliance combines blended finance and a livelihood accelerator to empower and uplift informal workers and micro-entrepreneurs, enabling their success and growth.

b. **A Guarantee** instrument works as a risk mitigation strategy wherein the guarantor assumes responsibility for paying a portion of the loan's total value to the lender in case of non-payment or loss. This alters the risk-return dynamics of the investment and lowers the cost of capital, thereby enhancing its commercial viability. By offering a partial credit guarantee, this instrument enhances the investment's creditworthiness, limiting potential losses. Eg: ADB's Risk Participation and Guarantee Program in partnership with Vivriti Capital promotes local currency lending to MFIs.

c. **Interest subvention** instruments operate on the premise that a funder fully or partially covers the interest portion of a loan, based on the social impact generated by the business enterprise. By offering an interest subvention, this provides incentive for business enterprises to broaden their range of products or services, simultaneously creating social impact and maintaining their commercial viability. Eg: HerVikas discounted loans for women entrepreneurs for growth and expansion of business by Kinara capital.

d. **Social Success Note (SSN)** is a modified version of a traditional SSN designed for financial inclusion. A financial institution provides low-cost loans to a group of social enterprises operating together. Each enterprise must achieve measurable impact indicators to receive outcome payments. Successful attainment of predetermined outcomes results in an additional incentive from the outcome payer to the risk investor. Eg. Yunus Social Business, along with ANDE India and SGB Finance Learning Lab are together pioneering Social Success Notes in India.

Given the diverse capital requirements and profiles of women-led MSMEs, a combination of innovative instruments, using a blended finance approach are recommended.

42 India Blended Finance Collaborative (IBFC); Blended Finance: MSME Sector Supplement (2022)

4.4 Government Anchorship

Liaising with the Government as an anchor to scale up

The Government of India has introduced various initiatives to facilitate access to credit and non-financial services for women-led MSMEs, in collaboration with partners:

These initiatives aim to address the financing needs of women entrepreneurs and promote their participation in business activities, helping them establish new ventures and growing existing ones. In this section, we provide a roadmap for aligning the Program, Process, and Product-level recommendations outlined above the policy initiatives to help leverage existing resources, and scale up programs.

1 Government-run initiatives

A significant push for fostering entrepreneurship has come from government schemes like the Stand Up India scheme, with a focus on promoting entrepreneurship among women. It facilitates bank loans ranging from INR 10 lakh to Rs. 100 lakhs. It aims to create an ecosystem that supports and nurtures these segments, ensuring they receive the required assistance to succeed in their new ventures.

2 Quasi-government and private partner initiatives

NITI Aayog's Women Entrepreneurship Platform (WEP) provides information and services to empower women and help them realize their entrepreneurial aspirations through Knowledge and Learning Networking & Collaboration, Capacity Building, Access to funding, Mentoring and Incubation. WEP has also partnered with private players like DeAsra, NASSCOM Foundation, and CISCO systems to further support women entrepreneurs.

3 Targeted public sector schemes

SIDBI (Small Industries Development Bank of India) has introduced a range of financial products to enable credit access. The Mahila Udyam Nidhi (MUN) scheme provides collateral-free loans for setting up new ventures, while the Mahila Vikas Nidhi (MVN) scheme offers financial support for expanding existing businesses. Another scheme, the Mahila Udyam Nidhi Scheme for Women (MUNS), provides term loans and working capital support for micro and small enterprises. SIDBI's initiatives facilitate economic growth and empower women to contribute to India's entrepreneurial landscape. The Central Bank of India's Women Entrepreneurship Cell offers gender-specific financial products and promotes best banking services and practices. Similar programs can be replicated and expanded to support larger-scale enterprises. The aim of this initiative is to cater to women entrepreneurs at all levels of economic activity, with a focus on sectors such as MSME, agriculture, and retail, aligning with government priorities.

1. Program intervention: Introducing policy innovation at DSA level

In stark contrast to male entrepreneurs, the women entrepreneurs pointed unawareness about financing sources as one of the reasons for non-application of credit. In the past, the policymakers had sought to identify and source women borrowers via the creation of exclusive financial institutions such as Bharatiya Mahila Bank (BMB). However, recognizing that affordable credit to women as well as propagation of women-centric products can be achieved quickly only via a wider network and lower cost of funds, which is difficult for a new bank, the BMB was merged with State Bank of India in 2017.

Therefore, the government and other regulatory stakeholders including RBI and Indian Banks' Association (IBA) can lay greater emphasis on policies that encourage and facilitate women entrepreneur centric and/or focused direct sales agents (DSAs). As frontline agents, DSAs are closest to the customers in their loan application journey and account for a major share of sourcing and origination. There is a need for more dedicated women-focused DSAs or sub-teams. DSA cadres can also be trained to focus on niche markets, for specific sectors of operation, or a specific geography.

2. Product development: Adding dedicated mandates under priority sector lending norms

In line with the objective of promoting inclusive development, RBI has issued Priority Sector Lending (PSL) guidelines to Commercial Banks [including Regional Rural Bank (RRB), Small Finance Bank (SFB), Local Area Bank (LAB)] and Primary (Urban) Co-operative Bank (UCB). Under the PSL guidelines, lending to MSMEs are eligible to be classified as priority sector lending, and most importantly the guidelines have a special focus on microenterprises. Nonetheless, despite Govt's proclaimed thrust on women entrepreneurship, the PSL guidelines do not cover or categorize lending to women entrepreneurs as part of the priority sector lending. Additionally, women only find reference as one of the subcomponents of the weaker sections category. Even then the guidelines cover only lending to women borrowers up to the limit of INR 1 lakh.

The need of the hour, hence, is to carve out a space for, and allocate priority sector lending targets specific to women enterprises operating within the MSME ecosystem. It is equally important to raise the credit limits beyond INR 1 lakh, and ensure that it aligns with credit requirements of women entrepreneurs.

The recommendations presented in this report emphasize strategies that financial institutions can adopt to reach out to and support growth-oriented enterprises. The study indicates that providing blended finance instruments including tailored financial services alongside support services like access to networks and training of bank personnel at different levels are significant in targeting women entrepreneurs. The study aims to foster engagement of financial institutions with female customers through the recommended approaches and beyond.

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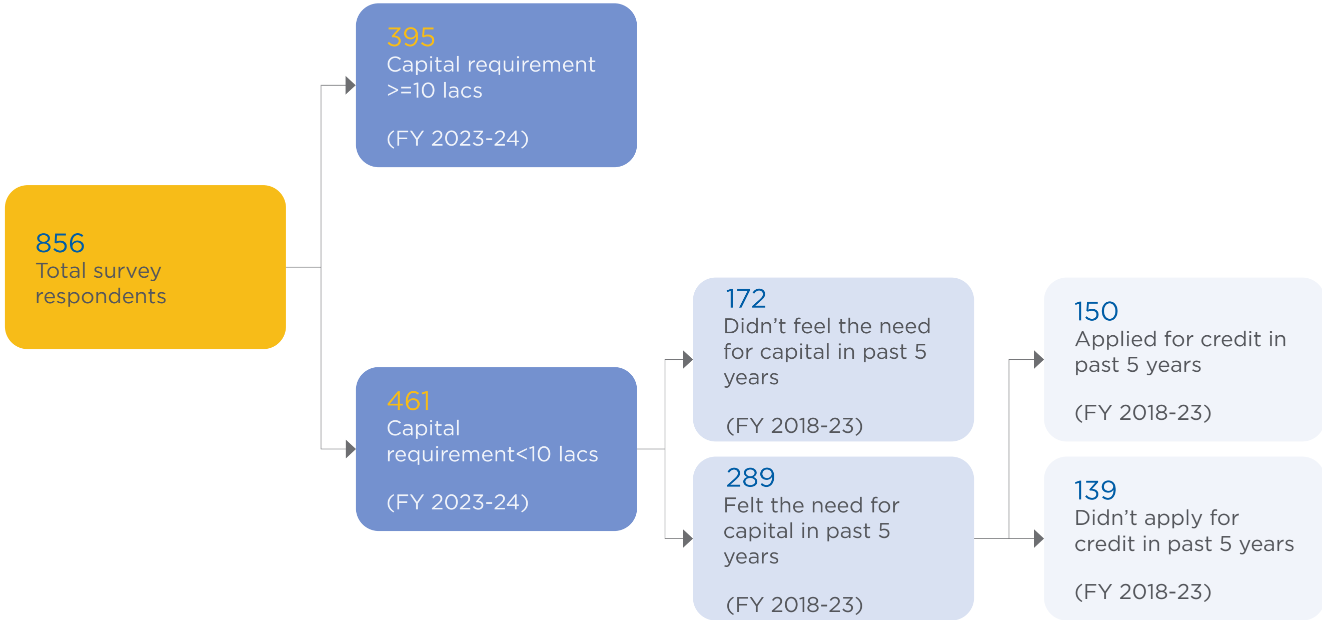
Annexure 1

Below is the brief analysis of enterprises respondents with capital requirements of less than 10 lakhs (n=461), since they were not the principal target segment as per the study design.



Among the 461 respondents who recorded a capital requirement of less than 10 lakhs, 57% (n=263) are males, and 43% (n=198) are females. The sectoral split of the enterprises includes 49% services, 32% manufacturing and 19% trade related enterprises. Among the services category, personal services emerged the most prominent, followed by apparel and other manufacturing sub sectors as the most prevalent ones. Among the trade sector enterprises, those involved in retail trade apart from that of motor vehicles and motorcycles emerged prominent.

Profile of entrepreneur

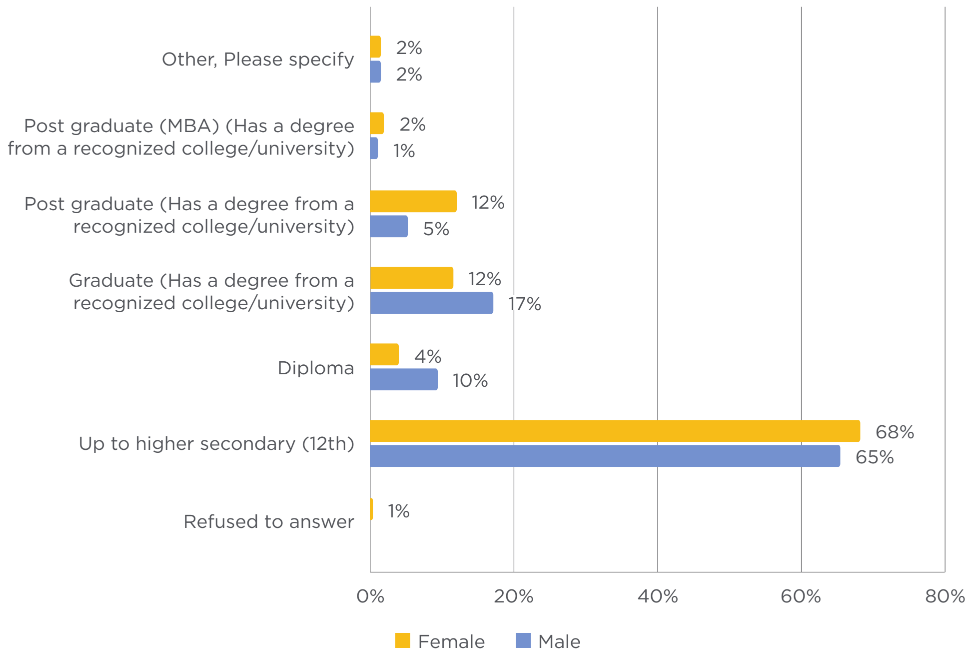
Age

This category of entrepreneurs belong to a slightly younger age group with 69% of them in the 30-49 years bracket, as compared to those with a higher capital requirement. As pointed earlier, this is indicative of the time it takes for enterprises to scale up.

Education

The number of entrepreneurs decreases significantly as the education level goes up. 67% entrepreneurs in the lesser capital requirement category have attained senior secondary level education, across the two

Figure 24: Highest level of education (N=461)



genders. In comparison with the higher capital requirement bracket, the level of education of entrepreneurs in the less than 10 lakhs category is much lower.

Enterprise profile

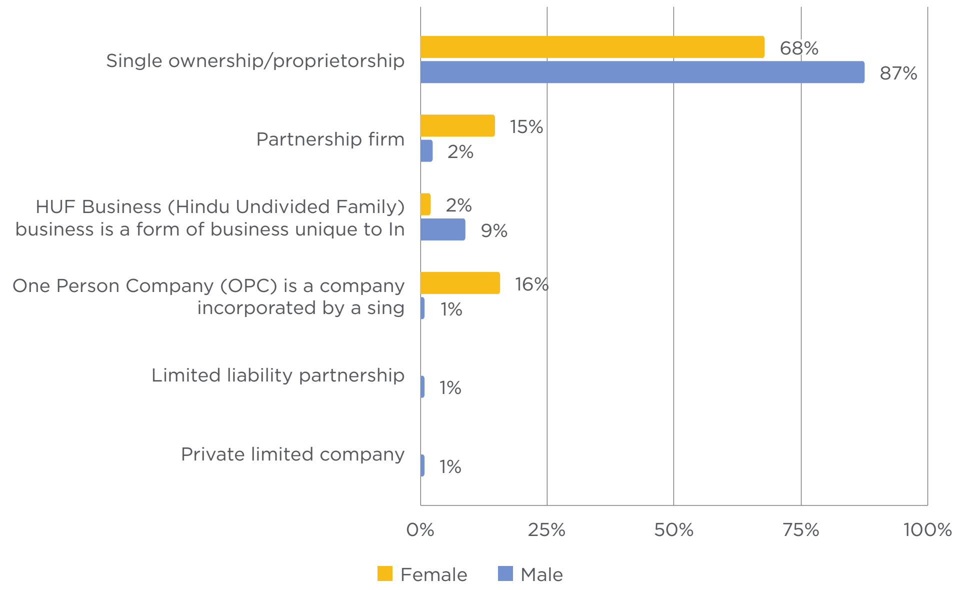
Ownership structure

The ownership structure of the enterprises further shows a difference with more entrepreneurs with the sole proprietorship (79%) and private limited liability partnership firms (8%), as compared to the category of enterprises with capital need greater than INR 10 lakh at 56% and 12% respectively. With the category, more male entrepreneurs (87%) have sole proprietorship businesses as compared to women entrepreneurs (See Figure 25).

Vintage

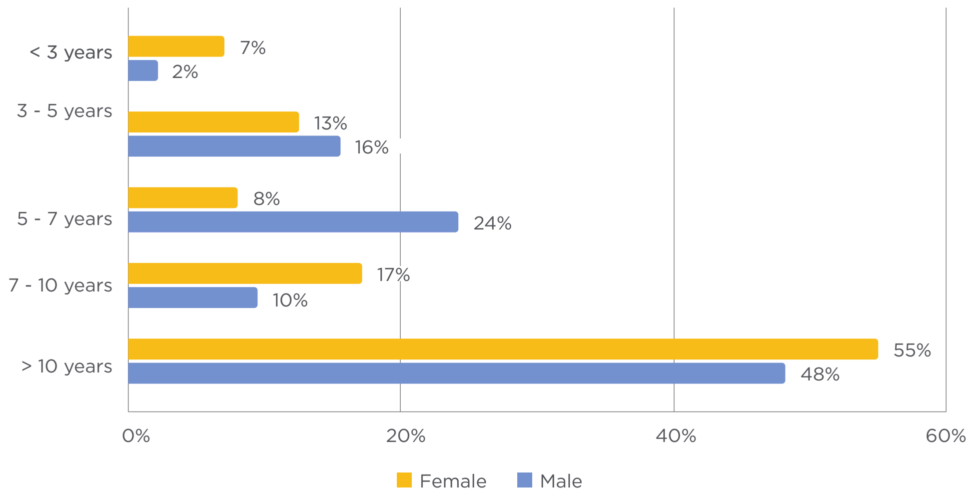
Majority (51%) of enterprises have a vintage of more than years in the lesser capital requirement category, indicating that the capital

Figure 25: Gender split of enterprise structure (N=461)



requirement of the enterprises reduces as they mature with time. In the lesser capital requirement category, female entrepreneurs have higher vintage than male entrepreneurs (see Figure 26).

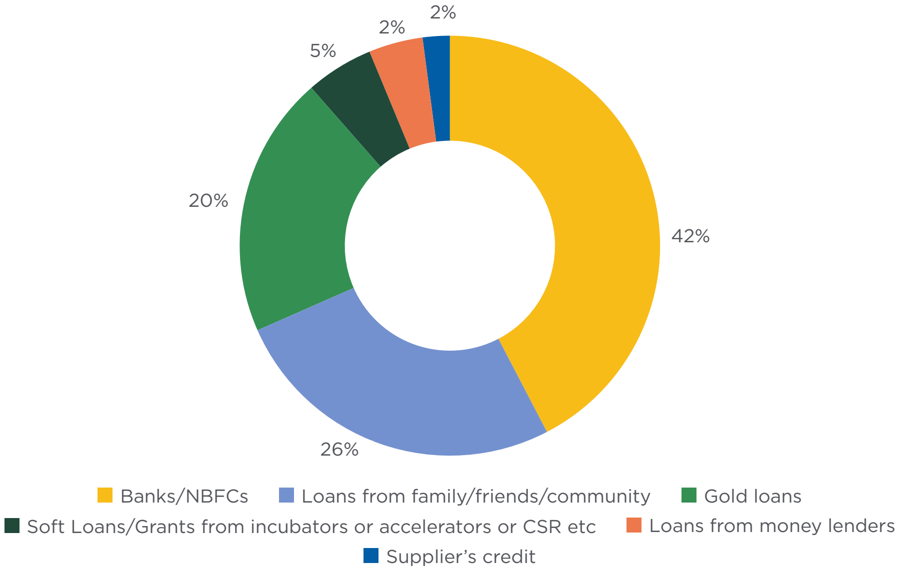
Figure 26: Vintage of the enterprise (N=461)



Capital needs

Out of 461 respondents, 63% (n=289) respondents felt a need for capital in the last 5 years. The ones who felt a need for capital, were further probed about the preferred sources of capital to meet their needs. Among the sources ranked 1 among the preferences, banks and NBFCs.

Figure 26: Preferred sources of credit (N=461)

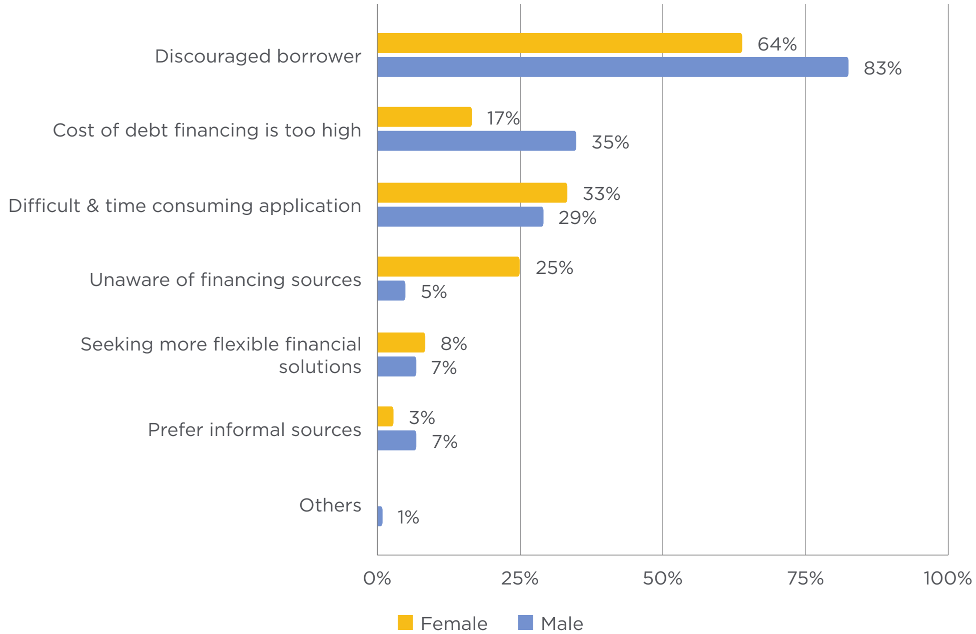


Further, out of those who felt the need for capital, 52% (n=150) actually applied for credit to a bank or NBFC. This does not vary much in comparison with the 58% in the higher capital requirement category. The gender difference, however, is more visible in the lower capital category, wherein 24% fewer females (38%) applied for credit in comparison with 62% males. In more than 10 lakhs credit requirement category, almost same number of women and men applied for credit.

It is interesting to note that documents requirement at the time of loan application is higher among the higher capital requirement category. Difference across genders is wider among the higher capital requirement category. In the lower capital requirement category, women entrepreneurs reported fewer document requirements as compared to males.

When further probed about the reasons for not applying for credit, being discouraged emerged as one of the primary reasons. Among women entrepreneurs, being discouraged (64%) was the most commonly cited reason for not applying. This was followed by difficulty in and/or turnaround time (TAT) of credit application (33%). Lack of awareness regarding financing sources, was another reason where 25% women entrepreneurs lagged behind.

Figure 27: Reasons for not applying for bank/NBFC loan (N=139)



Annexure 2

Table 7: Supply-side Key Informant Interview Participants

S.No	Name	Financial Institution	Designation
1	Ragini Chaudhary	Caspian Debt	Director – Investments
2	Roopa Satish	IndusInd Bank	Country Head Sustainable Banking & CSR, Head Portfolio Management & Decision Science
3	Rathnamala	Federal Bank	Head – Corporate & Institutional Banking AP & Telangana
4	Gaurav Gupta	Ananya Finance	CEO
5	Siddhart Mahanot	Indifi	Co-founder & COO
6	Shyam Sundar Prasad	SBI	AGM, SME Credit Center
7	Naval Gupta	IOB	Rtd Chief General Manager/MSME

Table 8: Sample Sourced across Study Partners

S.No	Partners	Sample obtained	Total outreach
1	Credence	88	1757
2	EDII Women	25	198
3	Game	543	1034
4	Villgro	11	139
5	CII	57	1149
6	IndusInd Bank	53	599
7	Leadbank	5	77
8	NSRCEL (IIMB)	2	16
9	TiE Chennai	1	38
10	WE-Hub	27	112

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