



POWERING WITH HER

Roundtable on

DECODING LENDING TO UNDERSERVED WOMEN'S ENTERPRISES BY NBFCs

*in collaboration with the **Global Alliance for Mass
Entrepreneurship (GAME)***

8 May, 2024



Organised by

The Udaiti Foundation

Global Alliance for Mass Entrepreneurship (collaborator)

Speakers

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Sabyasachi Rath, Co Founder and CEO of Purple Finance Limited

Ashok Mittal, Managing Director at Prest Loans

Arjun Muralidharan, Founder of GrowXCD Finance

Moderator(s)

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Participants

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Background & Context

Women entrepreneurs, comprising 20% of all of India's enterprises play a significant role in the economy. Despite their substantial presence, they face many challenges, including and especially in accessing formal credit. The numbers are staggering; 90% of women-led enterprises have not availed formal credit and 79% women entrepreneurs rely on their own capital as the primary source of finance. Of the many factors influencing the low access to credit for women entrepreneurs, a critical one is the traditional credit assessment paradigm, rooted in historical credit data and collateral-based evaluations. Traditional credit assessment methods are primarily reliant on credit scores, income records, and asset-backed collateral which results in the exclusion of self-employed and women small business owners because they:

1. **Have thin credit files**, characterised by limited or absent credit history in their own names.
2. Face difficulty in meeting the **collateral requirements of traditional lending practices** due to systemic gender-based disparities in asset ownership
3. Have **limited availability of financial data** and credit histories due to them operating their business offline

However, research has shown that women have a lower credit risk rate than men as they are better at repaying their loans on time and default less than men. This presents a unique opportunity for lenders to safely increase their borrower base by including low risk female entrepreneurs who require formal credit to start and expand their businesses.

Since NBFCs continue to dominate the microfinance market with a portfolio share of 37.3% (as of March 2023) and have a thorough understanding of niche markets, they are well suited to provide credit to women entrepreneurs through innovative lending solutions. Given the impediments to women's access to finance listed above, a promising and innovative lending solution that can de-risk lending for NBFCs and increase the borrower base is the utilisation of alternate credit assessment methods.

Alternative credit scoring models have the potential to mitigate traditional biases and barriers encountered by women seeking credit. Women entrepreneurs frequently possess limited or unconventional financial backgrounds, engaging in non-traditional income-generating activities such as freelance work or gig economy participation. Alternative credit scoring models counter this by focusing on objective and diverse data, which offers a comprehensive view of a women entrepreneur's financial behaviour, thereby eliminating discriminatory elements.

The Udaiti Foundation believes that women-owned enterprises must be at the forefront of India's growth narrative, and therefore, we brought together NBFCs who are a part of GAME's NBFC accelerator program to identify opportunities for enabling financial inclusion through credit assessment.

Through this roundtable discussion with NBFCs, Udaiti aimed to:

- **Assess the current lending approaches:** Gain insights into the existing lending approaches of NBFCs, including the creditworthiness assessment parameters utilised and target borrower archetypes
- **Identify opportunities for enabling inclusion:** Investigate the appetite and possibility for NBFCs to expand their borrower base by lending to excluded categories, particularly women entrepreneurs
- **Evaluate the need for standardised parameters:** Determine the demand and feasibility for developing a standardised criteria for alternative credit scoring models that can be implemented by NBFCs.





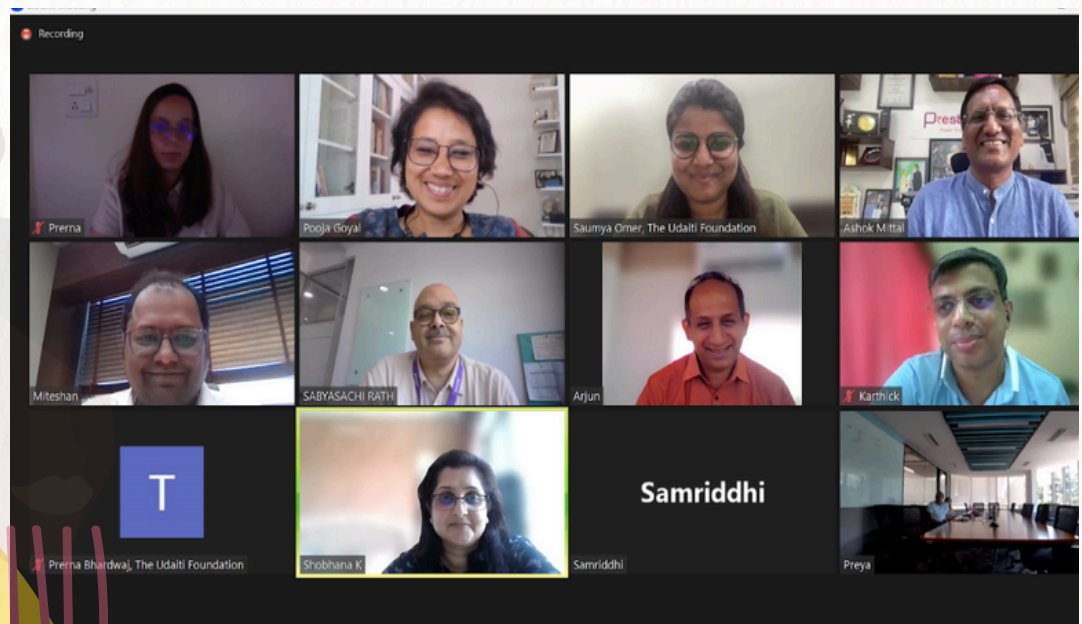
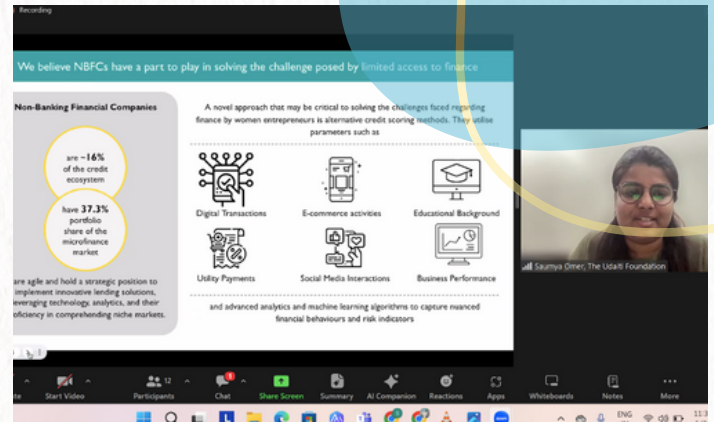
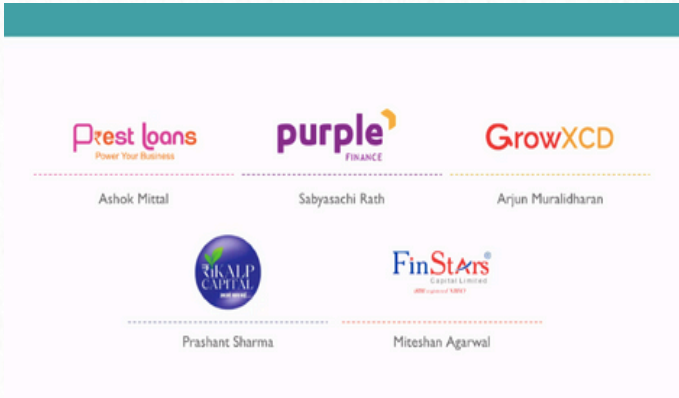
Executive Summary

The Udaiti Foundation, along with GAME, hosted a virtual roundtable discussion on the scoring models and assessments by NBFCs for women entrepreneurs as borrowers on 7th May 2024. The roundtable convened NBFCs who are a part of GAME's NBFC accelerator programme to explore their lending practices, especially towards women entrepreneurs.

The discussion explored their borrower base, credit assessment methods and dissected the enablers and barriers to lending to women. Unanimously, the NBFCs declared their positive outlook towards lending to women borrowers, going as far as to mandate a female co-applicant of their unsecured loans. This is due to the observation by NBFCs regarding better financial discipline and lower default rates by women, which builds confidence amongst NBFCs for women borrowers.

To cater to new-to-credit borrowers and women entrepreneurs, NBFCs employ alternate credit assessment, incorporating many non-financial parameters such as age of borrower, business health, address, number of children, education of family, children's education, type of locality (size of roads), number of assets owned, business experience, size of business, living standards, steps taken to safeguard assets such as gold. These are verified by field agents through document authentication and observation for calculating the score.

Despite this positive outlook and the use of alternate credit assessments, women are typically co-applicants rather than primary applicants for loans, with only about 20% of the primary loan applicants being women. The discussion revealed suggestions such as enhancing gender sensitivity among field agents and increasing gender diversity within their workforce. A standardised set of parameters for alternate credit assessment was also seen to be of value, however, the lack of data such as ITRs, GST records and bank transactions may hamper the development of such parameters. Borrowers often have minimal social footprints and, being self-employed, traditional salary-based assessments are ineffective, complicating the acquisition of reliable alternate data points.



WHAT WE LEARNED

About NBFCs

NBFCs dominate the Microfinance market with a **portfolio share of 37.3% as of March 2023**. This share is followed by banks with 33.1% share while the Small Finance Banks (SFBs) comprise 16.6%.

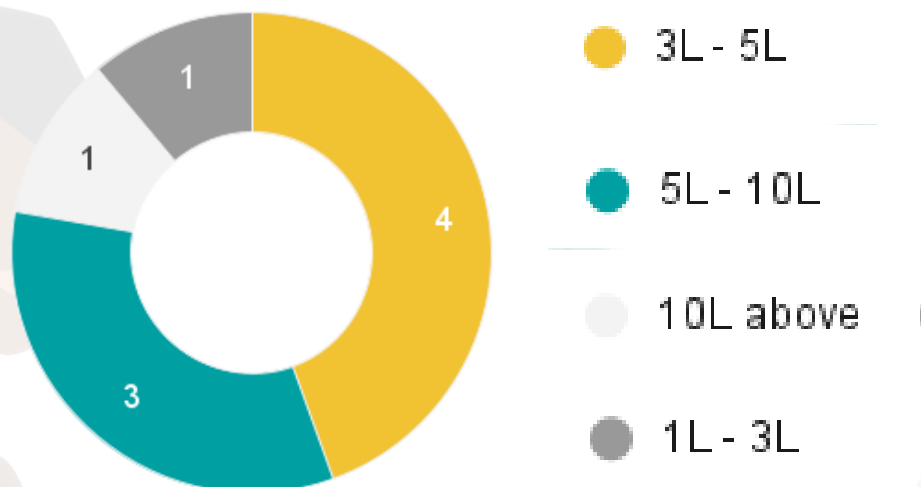
50.6% of NBFC MFIs' portfolio consisted of loans of ticket size INR 30,000 - INR 50,000.

They hold a strategic position to implement innovative lending solutions, leveraging technology, analytics, and their proficiency in comprehending niche markets.

NBFCs constitute approximately 16% of the credit ecosystem, with Assets Under Management (AUMs) amounting to around Rs 27 lakh crore as of March 2022, as reported by CRISIL and ASSOCHAM.

The inherent agility and specialised focus of NBFCs equip them with a distinctive advantage in fostering novel approaches to credit provision and financial inclusivity.

Average Loan Size



WHAT WE LEARNED

Borrower Profile

NBFCs **primarily serve micro-enterprises** in small towns who often lack documented income and are informal in nature. These borrowers mostly run small businesses selling groceries, clothing material, tailored goods, etc, with about 30% of their income routed through banks and the rest in cash.

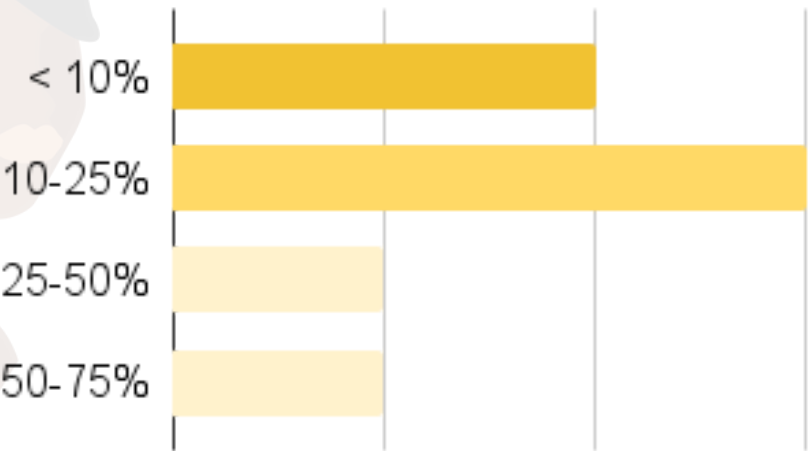
Approximately **15-25% of the NBFC borrowers are new-to-credit (NTC)** and interestingly, the **NTC portfolio is their best-performing segment.**

Women are the primary borrower in 20-25% of cases and 20-30% of the applications for credit at NBFCs are by women.

Women entrepreneurs who borrow from NBFCs fall into two categories: those in smaller towns who take loans as part of their households, and a smaller segment of independent women entrepreneurs in larger cities.

NBFCs ensure that there is **at least 1 woman co-applicant for their unsecured loans** as there is a strong perception among NBFCs that **women borrowers are creditworthy** due to their financial discipline and lower default rates.

Percentage of Women Borrowers



WHAT WE LEARNED

Credit Assessment

The borrowers that NBFCs lend to often **operate in the informal sector**, conducting their business through cash. Their borrowers often do not have ITR and GST and they have a thin social media footprint (mostly utilising Facebook). Hence, the NBFCs resort to **building proxy indicators to evaluate the creditworthiness of their potential borrowers**.

Multiple **non-financial parameters** are considered which include both **personal and social factors** which are verified by field agents through document authentication and observation for calculating the score, following a **phygital approach**.

NBFCs expressed a **value in standardising alternate credit assessment methods** for fostering inclusion and diversifying borrower bases. However, because of the specific profile of their borrowers (as earlier mentioned, mostly informal with limited financial information and digital footprint), getting alternate data points is a challenge.

Currently the proxy indicators utilised include **age of borrower, business health, address, number of children, education of family, children's education, type of locality (size of roads), number of assets owned, business experience, size of business, living standards, steps taken to safeguard assets such as gold**

Method of Credit Assessment



8 of 9 NBFCs utilised both traditional and alternate parameters for credit assessment.

WHAT WE LEARNED


Design for Inclusion

Demonstrating **agility and adaptability**, NBFCs lend to segments that bigger financial institutions typically overlook, such as informal and small businesses in semi-urban and rural areas, thus being **intrinsically inclusive in their lending practices**.

There is an innate openness to **diversifying their borrower base and including more women and new to credit borrowers**. However, gender diversity among borrowers remains low due to fewer applications from women. Despite recognizing the credit worthiness of women borrowers, there are no concrete steps in place to increase gender diversity, as the current approach to lending is gender agnostic.

Additionally, NBFCs note several challenges that hinder their ability to have a more inclusive borrower base. These include the **lack of gender diversity within their own workforce**, the **absence of tailored financial products** for women, and the **need for greater gender sensitivity among field agents**.

Addressing these issues in a sustained manner is essential for NBFCs to increase their reach to women borrowers and enhance overall inclusivity in their lending practices.



All 9 NBFCs expressed that they would give more loans to women if the right incentives were provided by governance institutions, lowering the cost of lending

CONCLUSION & WAY FORWARD

Women entrepreneurs make up 20% of India's enterprises and play a crucial role in the economy. However, they face significant challenges in accessing credit which hampers their growth. NBFCs are well positioned here to provide credit to women entrepreneurs and help their businesses grow. Their understanding of niche markets and willingness to employ lending mechanisms that are gender-intentional and inclusive can help address the barriers women face in accessing finance and produce critical evidence that can be used to build a business case for lending to women.

Evidence Generation

NBFCs **demonstrate agility** in their lending approach, including their perspective on lending to women. Going forward, **evidence from NBFCs lending practices**, such as the borrower segment, assessment criteria, default rates, etc can be leveraged to build a **strong case for demarking women's enterprises as 'risky' borrowers** and increasing the flow of credit towards women by other financial institutions.

Standardised Alternate Credit Assessment

Developing a **set of proxy credit risk assessment indicators** for financial institutions to use when lending to women can result in a shift away from the current focus on collaterals and credit scores. These indicators, which could be adaptable to different contexts, could be **recommended by regulatory bodies for better adoption, bringing in an institutional change**

Supply Side Sensitisation

While there has been a shift at the institutional level, **gender intentionality remains a gap** at the last mile owing to predominantly male banking agents serving the women population. This is a call for **increasing female banking correspondents** in both traditional and non-traditional financial institutions, along with **strengthening the gender sensitisation trainings of banking field agents**.

The Udaiti Foundation, along with its partners, solicits banking institutions, non-banking financial service providers, bridge institutions, philanthropy organisations, policymakers, and all other individuals and collectives with an actionable intent to conceptualise, influence, and realise strategies for bridging the gender credit gap for women entrepreneurs on a grand scale.



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