State of Enterprise Finance-
Impact on the 'Missing Middle' of Women Entrepreneurs in India

A whitepaper on evolving landscape of challenges faced by women entrepreneurs and potential strategies to close the gender gap in enterprise finance for women's enterprises

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While their contributions have greatly enriched this document, it is important to note that the views expressed herein are solely those of the authors and may not necessarily reflect the perspectives of our reviewers.

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List of Abbreviations

AA: Account Aggregator

BNPL: Buy-Now-Pay-Later

CGFMU: Credit Guarantee Fund for Micro Units

CGTMSE: Credit Guarantee Fund Trust for Micro and Small Enterprises

DPI: Digital Public Infrastructure

GDP: Gross Domestic Product

IFC: International Finance Corporation

MSME: Micro, Small and Medium Enterprises

NFHS 5: National Family Health Survey 5

NRLM: National Rural Livelihood Mission

ONDC: Open Network for Digital Commerce

OCEN: Open Credit Enablement Network

RBIH: Reserve Bank Innovation Hub

RRBs: Regional Rural Banks

SDGs: Sustainable Development Goals

SEWA: Self-Employed Women's Association

SHGs: Self Help Groups

SRLM: State Rural Livelihood Mission

UPI: Unified Payments Interface

WEP: Women Entrepreneurship Platform

Executive Summary

The Micro, Small and Medium Enterprises (MSME) landscape in India grapples with a notable 'missing middle,' marked by a prevalence of micro and large enterprises, while medium-sized ventures, particularly those led by women, lag behind. This disparity stems from gender-specific impediments in financial access, networking, and resource allocation, constraining the advancement of women-owned businesses and, consequently, impeding broader economic progress. Rectifying this imbalance is imperative for India's economic trajectory, necessitating concerted efforts to nurture medium-scale enterprises. The resultant expansion, especially within the domain of women-led enterprises, holds the promise of substantial job creation.

Women entrepreneurs encounter multifaceted hurdles, spanning restricted market entry, cultural norms influencing decision-making and asset ownership, and deficiencies in accessing networks, training, and digital infrastructure. Financial constraints pose a significant barrier, exacerbated by biased risk evaluations, scant financial data, and inadequate credit opportunities.

Key strategies to bridge the 'missing middle' entail harnessing platforms such as the Digital Public Infrastructure (DPI), which has facilitated initiatives like the Open Network for Digital Commerce (ONDC), bolstering formal credit accessibility through frameworks like MUDRA, and integrating innovative fintech solutions. Policymakers wield pivotal influence by championing gender-centric policies, tailoring financial instruments, and addressing deficiencies in gender-oriented data analysis.

Partnerships emerge as a crucial tactic, exemplified by collaborations with entities like Self Help Groups (SHGs) and private sector entities. Such alliances play a pivotal role in amplifying women-led enterprises, offering vital resources including capital infusion, mentorship, and networking opportunities—assets often lacking in the entrepreneurial journey of women. Recognizing the significance of collective endeavours in fostering an enabling ecosystem for entrepreneurship, this whitepaper advocates for the need of a Women Entrepreneurs' Finance Alliance.

This proposed Alliance holds the potential to facilitate the generation of sex-disaggregated data and empirical insights, foster innovative financial solutions, cultivate market access and skill enhancement, and promote gender sensitization. By aggregating individual action, the Alliance aims to dismantle the current fragmented landscape surrounding women's entrepreneurship, ultimately propelling women's economic empowerment across the nation.

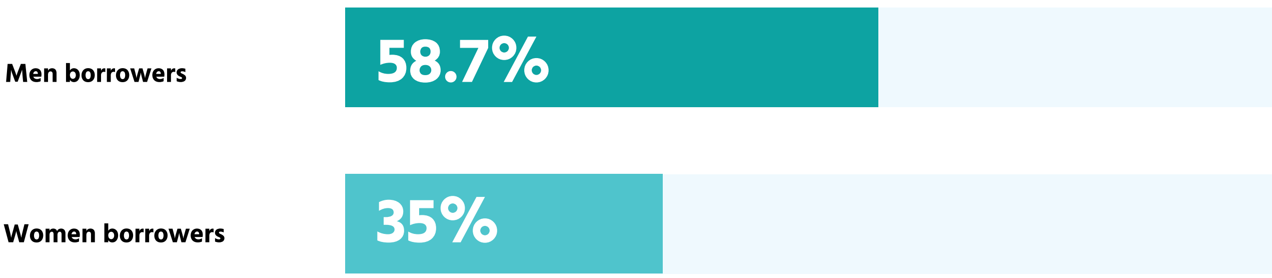
Introduction

What is the missing middle?

India's MSME sector exhibits a pronounced 'missing middle' - an acute under-representation of medium-sized companies compared to micro and large firms.[1] As per government data, a staggering **96% of all MSMEs in India are micro-enterprises, while medium-sized companies account for just 0.32%**. This skewed distribution contrasts sharply with other major economies where mid-sized firms typically comprise a greater share.

For women-owned enterprises, the numbers are even more skewed. **95% of women-owned enterprises are still in the micro-segment, 4% in the small and less than 1% in the medium**. Despite their strong potential, women-owned enterprises face heightened challenges due to gender-specific hurdles in accessing finance, networks, and resources that make it even more difficult for women entrepreneurs to traverse the missing middle.

Figure 1: Small Borrowers Accounts (RBI)-



In India, 18 % of the 15 million women-owned micro-enterprises are Women's Very Small Enterprises that could grow if given the right growth inputs (IFC)

Why is the missing middle important?

India has only about one-half to two-thirds as many midsize and large firms compared to other "outperformer" emerging economies, per $1 trillion of GDP. This acute 'missing middle' hampers India's economic growth and employment generation potential. Thus, nurturing more mid-sized firms is crucial to drive productivity, innovation, exports and job creation.

India has over **63 million MSMEs, which contributes around 45% of its manufacturing output, and nearly 40% of its total exports**.[2] Evidence suggests that medium-scale enterprises can play a vital role in driving manufacturing growth, as they can benefit from economies of scale, operational efficiency, and investment in technology. Additionally, their integration with the global value chain can boost India's exports and enhance international trade competitiveness.

Mid-sized firms are more likely than micro enterprises to provide formal, high-quality jobs. **Women-owned enterprises in India employ 22-27 million people directly**. Estimates suggest that accelerating women's entrepreneurship could create over 30 million women-owned enterprises, potentially creating 150-170 million jobs.[3]

The missing middle segment prevents smaller firms from growing into larger ones, restricting overall economic growth. According to a McKinsey report (2020), **India needs to create around 1,000 mid-sized firms that can transition into large corporations by 2030**.[4] This is essential for Indian firms to achieve economies of scale, innovate, and gain a global footprint.

Within the MSME segment, women-owned enterprises have immense potential but face disproportionate challenges in overcoming the missing middle. Improving gender parity in entrepreneurship can significantly boost India's growth, adding over $700 billion to GDP by 2025. This is indispensable for India to leverage the dynamism of MSMEs and become a $5 trillion economy.[5] Thus, implementing a long-term strategy to nurture the missing middle segment is imperative.

[2] NITI Aayog
[3] NITI Aayog
[4] Mckinsey
[5] HBR

Challenges faced by women-owned enterprises belonging to 'Missing-Middle'

1. Limited Access to Markets

Women encounter substantial and multifaceted challenges when it comes to accessing marketplaces which hampers the expansion of their enterprises. A primary challenge is the issue of restricted mobility due prevailing social norms and geographic constraints. Women-owned enterprises often focus on a local-market which does not foster business growth to the extent that larger regional, national and international markets do.

Another challenge is the limited growth of procurement from women entrepreneurs by both the public and private sectors. Gender responsive procurement can foster the growth of women-owned enterprises, however, despite its obvious importance, procurement through women entrepreneurs has only grown from 0.15% in FY 2018-19 to only 0.99% in FY 2022-23.[6] This poses a significant challenge for women entrepreneurs who want to scale up their businesses.

Traditional business models are not conducive to innovations and growth whereas e-commerce, particularly through online marketplaces, offers a promising avenue for women entrepreneurs, as it reduces barriers to entry and scaling up by following a 'minimum investment, maximum profit' model. Yet, the low levers of digital literacy among Indian women hinders their full access to e-commerce platforms.

India has a mandated that 3% out of the 25% earmarked for procurement from MSMEs must be women-owned enterprises which has been met by less than 10% of the central public sector enterprises

Less than 5 million of 100 million MSMEs are registered to sell on e-commerce platforms (McKinsey and ONDC)

[6] MSE Sambandh Data

2. Social and Cultural Barriers

Women entrepreneurs encounter formidable barriers to scaling up, often entrenched in deeply ingrained social and cultural norms that curtail their ownership of assets, constrain their decision-making autonomy, curtail their mobility, and burden them disproportionately with caregiving responsibilities. Moreover, the internalisation of prevailing societal and cultural paradigms can foster a dearth of ambition among women entrepreneurs, who may not view their economic pursuits as legitimate enterprises but rather as secondary to their primary roles. Additionally, women's concentration in sectors traditionally associated with traditional genderisation, such as handicrafts and food processing, further hampers their capacity to diversify and expand. These sectors, characterised by labour-intensive operations and limited profitability, offer fewer opportunities for growth and competitiveness.

Furthermore, the pervasive influence of socio-cultural norms and stereotypes permeates financial institutions, where male loan officers often dominate. This gender imbalance can lead to a lack of nuanced understanding of women entrepreneurs' needs and potentials, resulting in prejudicial treatment and a dearth of tailored financial solutions.[7]

Figure 2: Percentage Women Doing Unpaid Care work.

46%

of the waking hours of Women are spent on unpaid care work on average. (Time Use Survey)

3. Limited Access to Network, Training and Digitization

Access to networks and mentors plays a crucial role in gaining knowledge and confidence. Initiatives like Self-Employed Women's Association (SEWA) Bank and WE Hub in India have demonstrated the efficacy of women-centric horizontal networks and incubators. However, women entrepreneurs encounter constraints due to their limited and homogeneous networks which impedes their ability to engage in business opportunities, innovations and partnerships, and access finance for the growth of their enterprises.

In addition to limited access to necessary networks, women also have low digital and financial literacy owing to educational and accessibility barriers, hampering them from scaling up and harnessing digital tools and access to finance.[8] For the growth of their enterprises, customised training programmes, suited to the specific requirements women entrepreneurs are needed. While there are a number of government programmes on promoting entrepreneurship in general, there is no scheme that specifically targets women's enterprises or is entirely dedicated to advancement and creation of women-led businesses.

[7] Alliance for Financial Inclusion
[8] Ibid

4. Barriers to Accessing Finance

Women-owned enterprises face acute barriers in accessing finance. Women make up over a third of MSME ownership, with high growth potential. However, women entrepreneurs predominantly operate micro and small informal firms, struggling to move upwards to mid-sized companies due to gender-specific hurdles in securing capital.

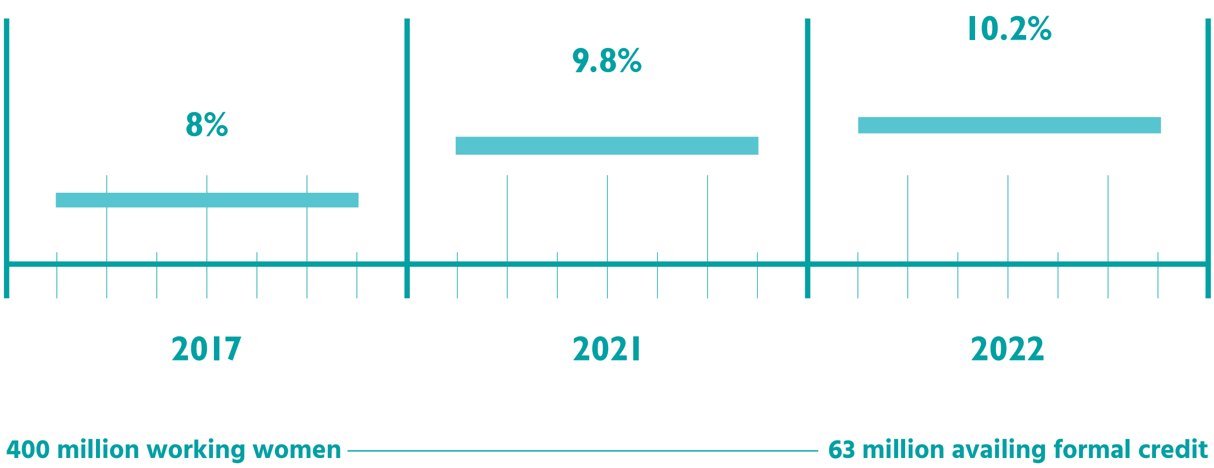
An IFC study found that around 90% of women-led enterprises lack access to formal credit in India. This is because of a multifold of reasons such as women-owned enterprises being overlooked by investors due to their small scale and informal nature. Lower asset ownership amongst women also restricts women's ability to provide acceptable collateral to banks. Another important factor that impacts the ability of women-owned enterprises to access finance is the limited availability of financial data. Women have insufficient credit histories and banking data due to operating predominantly offline, leading to biased risk evaluations by lenders. Moreover, women entrepreneurs often have limited access to skills training, mentors and networks that restrict their awareness and capabilities to secure financing.

In Udaiti's research through stakeholder consultations and ecosystem mapping, some key insights have also emerged:

a. Regional rural banks are the drivers of growth, mobilising banking for rural women but the rate of growth is not increasing as expected
b. There is a huge gap in demand and supply with access to credit - in what women want in terms of ticket sizes and the actual loans that are dispersed to them
c. There are more bank accounts than ever, but visibility on informal and semi-formal small businesses remains low

In the following section, our attention will be directed towards various levers that can tackle the previously outlined challenges. These mechanisms primarily centre on mitigating the challenge of access to enterprise finance, given its consistent correlation with the other challenges deliberated upon.

Figure 3: Percentage Women Availing Credit:



Key Levers for Bridging the Missing Middle

1. Platforms- Leveraging Digital Public Infrastructure (DPI)

India is at a critical juncture, having pioneered and adapted the transformation India stack for solving complex market challenges while fostering innovation, promoting equal opportunities, and furnishing the necessary infrastructure for growth and the last mile delivery of services.[9] DPI platforms, like ONDC, OCEN and the new Public-Tech Platform for Frictionless Credit by RBI Innovation Hub, stand to provide access to capital for approximately 16 to 19 million micro and small businesses worldwide, supporting their development.[10]

> **The WEP is a unified access portal which brings together women from different parts of India to build a nurturing ecosystem that enables them to realize their entrepreneurial aspirations. WEP has three pillars:**
>
> **1. Iccha Shakti: Represents motivating aspiring entrepreneurs to start their business**
> **2. Gyaan Shakti: Represents providing knowledge and ecosystem support to women entrepreneurs to foster entrepreneurship**
> **3. Karma Shakti: Represents providing hands-on support to entrepreneurs in setting and scaling up businesses**

DPI has the capacity to democratise credit accessibility for female entrepreneurs by granting them control over their financial records and data through the **Account Aggregator (AA) network.** This not only eliminates information disparities but also broadens the pool of entrepreneurs accessing previously inaccessible formal financial resources.

Furthermore, DPI is reshaping credit accessibility while enhancing e-commerce opportunities. The ONDC empowers female entrepreneurs to directly engage with markets through an open e-commerce platform that unites sellers, buyers, and creditors. Moreover, by leveraging **ONDC**, female entrepreneurs can access easier and cheaper credit as the data related to digital financial transactions is readily available for analysis and assessment through online transaction history, paving the way to new-age methods of identifying and assessing borrower risk.

In 2023, the Unified Payments Interface (UPI) facilitated 10 billion monthly transactions amounting to $300 billion. This influx of gender-neutral data presents an opportunity to construct robust proxy indicators of creditworthiness and financial tracking, thus expanding formal credit access to a significantly larger number of women. opportunity to construct robust proxy indicators of creditworthiness and financial tracking, thus expanding formal credit access to a significantly larger number of women.

[9] BMGF
[10] Ibid

Unified information access platforms such as the **Women Entrepreneurship Platform (WEP)** are bringing women from across the country together and fostering their entrepreneurial ambitions and aspirations by delivering essential content, workshops, campaigns, and various avenues for growth. Notably, the platform brings together funding information from all central and state government schemes, and development banks for entrepreneurs. This increases the knowledge and awareness of entrepreneurs regarding the means they can use to finance their enterprises. These platforms can also provide women entrepreneurs with the right kind of networks and mentorship by connecting them with leaders and investors which can help them in securing financing.

While these platforms hold much potential for ensuring easy and cheap credit for women entrepreneurs, there remain a few areas for growth.

a. A significant gap that reduces the effectiveness of the current platforms for women entrepreneurs is the predominant offline nature of business operations among MSMEs. Majority of India enterprises conduct their sales and operations offline, particularly evident in sectors such as groceries, where online penetration is remarkably low, ranging from 1 to 2 percent.[11] This hinders the ability of financial institutions to lend based on cash flows/ enterprise performance data.
b. For platforms to reach their true potential and benefits, a key challenge that remains is the low levels of digital literacy amongst women in the country. NFHS 5 found that only 43 percent of women have ever used the internet.[12] The low level of adoption of digital technologies and their know-how limits the ability of women entrepreneurs to make effective use of the existing digital commerce and information platforms.
c. Digital platforms must work towards building confidence amongst women entrepreneurs. Due to the digital nature of these platforms, concerns about data security, fraud and transparency can emerge and deter women entrepreneurs from using them. In India, women make up less than 30% of UPI users[13], primary concern being theft of their personal and financial information.
d. Lastly, it is important to ensure last-mile penetration. Local contexts, vernacular messaging tailored to specific geographies and district demographics can result in long-term, systemic change with respect to how women access information and tools, enabling grassroots expansion and adoption of India's DPI.

2. Policy- Advocating for Gender-Intentional over Gender-Agnostic

Policy-level interventions are a necessary tool when it comes to addressing institutional change and systemic shifts in societal/ economic conditions.

[11] ONDC and McKinsey & Company
[12] United Nations Development Programme
[13] The Economic Times

Gender-intentional policies play a pivotal role in addressing the unique challenges that women encounter in scaling their enterprises. There is a huge vacuum in the policy sphere with respect to guardrails and services specifically tailored to informal/ semi-formal, micro and small women-led enterprises. Government mandated regulations can initiate a catalytic shift in how funds are allocated and utilised across public and private sectors (including CSR), ultimately resulting in lower risk for financial institutions and hence, lower cost of credit for borrowers. Tools like Priority Sector Lending remain heavily guarded and under-leveraged, with limited advancement and adaptation over the years.

Pradhan Mantri MUDRA Yojana provides loans up to 10 lakh to the non-corporate, non-farm small/micro enterprises. These loans are given by Commercial Banks, RRBs, Small Finance Banks, MFIs and NBFCs.

In F.Y. 2022-23, 62,31,05 98 loans were sanctioned to borrowers under the PM MUDRA.

The requirement for a scheme specifically for women-entrepreneurs becomes evident when analysing data from PM MUDRA. While women entrepreneurs received 49% of the amount sanctioned under PM Mudra in FY 2021-22, most of this amount was in the form of the small loans in the "Shishu" category which only provides loans up to INR 50,000. Women entrepreneurs only received around 8% of the Tarun loans, which provide amounts between INR 50,00,00 to 10,00,000.

Even so, the Government of India has introduced several schemes aimed at supporting the MSME sector. These schemes include the **Pradhan Mantri MUDRA Yojana**, which provides collateral-free loans with a maximum limit of Rs 10 lakh to MSMEs. Additionally, the **Stand Up India Scheme** has been implemented to facilitate bank loans ranging from Rs 10 lakh to Rs 1 crore to at least one woman borrower per bank branch. The **Prime Minister's Employment Generation Programme** offers subsidies of 25% and 35% to women entrepreneurs establishing micro-enterprises in urban and rural areas, respectively.

The Ministry of MSME has issued a directive to various government bodies, including ministries, departments, and public sector undertakings, requiring them to aim for a **25% procurement quota from the MSMEs. Within this quota, a specific 3% must come from businesses that are owned by women**.[14] In a similar initiative, known as **"Womaniya,"** the goal is to address three main challenges faced by female entrepreneurs: gaining access to markets, securing financial resources, and enhancing the value of their products or services. This program aims to align the latent entrepreneurial potential of small-scale entrepreneurs, particularly those in remote areas of India, with government agencies that are local buyers.[15]

[14] Bain and Co
[15] Ministry of Commerce and Industry

State Governments across the country too have adopted policies to help women grow their enterprises. For instance, the government of Telangana recently launched **WE-Hub, a state-led incubator** exclusively for women-led startups. Similarly, the **Karnataka government partnered with Catalyst for Women Entrepreneurs to establish an incubator** providing women entrepreneurs mentorship, financing access and other support to scale their tech ventures. The **Maharashtra government instituted a special industrial policy** for women entrepreneurs offering financial assistance from INR 1.5 million to INR 10 million at subsidised 5% interest for 15%-35% of project capital investment. It also provides land reservation, electricity subsidies and other benefits.

Despite the policies, both at the state and the central level, there remain gaps to be bridged

1. One of the notable gaps in the policy space is the absence of a scheme specifically tailored to the needs of women entrepreneurs. Having a scheme dedicated to the needs of women entrepreneurs would serve their distinctive needs and provide opportunities for their growth and development.
2. Another gap is the limited gender-intentionality in the existing schemes focused on entrepreneurship. It is evident that only a marginal proportion of the 433 state schemes, merely 7%, incorporate specific provisions catering to women entrepreneurs.[16] Such lack of gender-intentionality is due to the absence of an understanding of the gender-specific challenges that women entrepreneurs face which necessitate gender-intentionality.
3. There is also a large gap due to the dearth of gender-disaggregated data on different indicators pertaining to coverage, outreach and impact of schemes and policies which makes it challenging to fully understand the extent to which women entrepreneurs and their enterprises benefit from the policies.

[16] Niti Aayog

3. Products- Designing for Inclusion and Accessibility

Traditional loan products and financial services are marred by high level of regulations, heavy compliance and documentation, leading to limited to no accessibility for a segment that has never accessed formal business resources.

With the advancement of technology, though, and the advent of the DPI stack, there are now emerging models of financial instruments demonstrating potential to eliminate barriers to information and affordability by tailoring the product to individual needs and requirements.

The Mann Deshi Foundation in India has been tremendously successful in increasing women entrepreneurs' access to finance. Its program for rural women has resulted in INR 500 crore of aggregate financing for 90,000 women, helped establish over 50,000 micro enterprises and seen 4 lakh women participating in business school and chamber of commerce initiatives.

A. Formal Credit and Government Loans

Formal bank credit and government-backed schemes like MUDRA are important sources of financing for women entrepreneurs in India. Rooted in RBI regulations, bank loans provide the benefit of collateral-free credit to help grow and formalise women-led MSMEs while ensuring consumer protection. Loans under the MUDRA scheme, with over 90% under INR 50,000, are tailored for micro and small women-owned ventures at lower interest rates compared to traditional financing. Similarly, targeted initiatives like Mann Deshi Bank that has facilitated women's access to loans and financial services in rural Maharashtra underscore the potential impact of making formal credit delivery more gender-responsive.[17]

Despite significant efforts from both the public and private sector banks, women-owned enterprises face a gap in accessing formal credit/ loan due to stringent collateral requirements, risk perceptions and lack of financial transparency. Moreover, average loan sizes and tenure remain insufficient for growth-oriented SMEs. Even though microfinance taps micro-needs, loan amounts and regional presence limit impact on the missing middle.

[17] Money Control

B. Tailored SME Funds

The Government of India has introduced dedicated funds and credit guarantee schemes like the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and the Credit Guarantee Fund for Micro Units (CGFMU) to enable collateral-free loans and working capital for women-owned MSMEs. However, data indicates that only **15.10 lakh women entrepreneurs have benefited from the CGTMSE scheme so far out of 72 lakh guarantees issued**. This points to significant room for enhancing outreach. Schemes such as Annapurna, Dena Shakti, Pradhan Mantri Rozgar Yojana also cater to women but lack a specialised focus on growth-oriented missing middle segments. SIDBI has rolled out targeted funds like the WE Fund and Aspire Fund that provide risk capital to early-stage women-led SMEs. However, their scale remains limited currently. Private sector initiatives like HerVikas by Kinara Capital offer dedicated products with relaxed collateral norms, discounted interest rates and faster processing aimed at women-owned manufacturing and services SMEs.

Schemes such as CGTMSE have low coverage and claim settlement rates, diminishing their value. Most of the existing schemes have a focus on micro-credit provision, and very few initiatives provide early-stage risk capital for innovative women-led SMEs lacking. Additionally, there is an absence of dedicated monitoring mechanisms to track reach and impact of women-focused funds.

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Figure 4: Gender Disparity in CGTMSE Beneficiaries

A mere 17.26% of CGTMSE beneficiaries are female, emphasizing a concerning gender gap. Among these beneficiaries, a significant portion fell within the less than 5 lakh loan category, pointing to both the predominance of micro-enterprises and the need to actively promote CGTMSE among female borrowers

> LendingKart is an Indian fintech company that provides working capital loans to MSMEs using technology. When a woman entrepreneur applies for a loan, the company relies on big data and algorithms to evaluate her in a gender-neutral manner and treat her fairly across the lending value chain. Since women clients make good business sense, LendingKart is now looking to develop targeted digital marketing, sales and servicing processes to attract and retain more women borrowers.

C. Emerging Fintech Models

India's fintech sector has grown rapidly in recent years, with an estimated 2,000 fintech startups and 300 digital lenders, including Buy-Now-Pay-Later (BNPL) players, operating by the end of 2020. Digital lending alone is expected to reach $1 trillion by 2023. Fintech models are emerging, leveraging digital data and platforms for improved risk assessment, processing efficiency and financial inclusion. However, the efficacy depends on MSMEs' digital and financial literacy. Innovative fintech solutions like digital marketplace lending, supply chain finance platforms and payment gateway-based merchant cash advance leverage technology to serve unmet credit needs. Moreover, smart automation and data analytics show promising potential to enable tailored products for the missing middle.

Alternative digital credit scoring tools are enabling financial inclusion for women entrepreneurs in India by going beyond conventional metrics. Alternate credit assessment methods challenge the status quo by embracing innovative data sources, advanced analytics, and machine learning algorithms. These methods endeavour to capture the nuanced financial behaviours and risk indicators that conventional models overlook. By considering diverse data points beyond formal credit history, they paint a more comprehensive portrait of an individual's credit-worthiness and capability to manage money.

Conventional assessments underutilize alternative data sources like digital payments or business metrics that could provide fuller views of women-owned enterprises. However, focus on speed and automation also risks overdependence on technology and datasets that may overlook nuances. Scoring algorithms biased towards digital footprints can miss cues from women operating in the informal economy. Lack of explainability when applicants are rejected also causes distrust. Hence, while alternative tools have greatly enhanced access to capital, India must balance rapid financial inclusion with robust data governance, customise services for women MSMEs' informal profiles, and strengthen consumer protection to uphold ethics.

A key gap in the emerging digital fintech models in India is their primary focus on serving urban, young, and formally employed consumers who have predictable income streams and extensive digital footprints. Financial service providers gravitate towards this demographic segment as their digital transactions and activity generate abundant data that can be leveraged to determine creditworthiness with minimal acquisition costs. However, this focus on data-rich customer profiles leaves out large segments of the population in rural geographies or the informal economy whose cash flows and livelihoods are less "intuitive" to algorithmic evaluation. Women entrepreneurs often fall into this category, relying more on cash transactions and informal networks outside the digital mainstream.[18]

CreditVidya offers alternate data based credit scores for underwriting first time borrowers using ML and big data analytics, reducing the cost of processing loans from about $2 to less than a cent while overcoming a lack of credit history or collateral by leveraging loan applicants' digital footprints to measure their creditworthiness.

To determine creditworthiness, CreditVidya's AI and ML platform—Medhas—leverages payment data, financial behavioural data, and device data stored on smartphones to help determine loan applicants' ability and intent to repay loans.

Rang De is India's first prosocial peer-to-peer lending platform that facilitates unsecured loans to low-income individuals and micro-business owners through its online platform. It connects lenders and borrowers, with a focus on rural India. Through in-depth field visits and interactions, Rang De is able to gather authentic insights into borrowers' contexts and lived realities. This on-the-ground due diligence along with partnerships with trusted local intermediaries allows Rang De to extend credit to women micro-entrepreneurs overlooked by formal channels.

[18] Centre for Financial Inclusion

4. Partnerships- Designing for Scale and Implementing for the Last-mile

Partnerships can serve as a pivotal lever in addressing access to credit for women-owned enterprises by leveraging complementary resources, expertise, and networks. Collaborations between financial institutions, government agencies, non-profit organisations, and private sector entities can create synergies that enhance the availability and suitability of financial products and services for women entrepreneurs.

> **NRLM program had mobilized nearly 60 million women in close to 6 million SHGs by 2019 (GOI 2019)**

Partnerships between government, non-profit organisations, and community-based institutions can provide women entrepreneurs with access to complementary support services, such as business training, mentorship programs, and networking opportunities. By combining financial assistance with capacity building and mentorship, these partnerships can empower women entrepreneurs to effectively manage their businesses and maximise the impact of credit resources.

SHGs and other women's associations such as the SEWA, Mann Deshi, SRLM have a critical role to play as bridge institutions in building confidence and aspirations of women entrepreneurs and convincing them to seek credit. These partnerships and alliances are also important for the dissemination of novel credit-related solutions to women as SHGs and associations provide a readily accessible channel for direct engagement with the female demographic.

A key observation by practitioners and gender experts has also been that not all women entrepreneurs are credit-willing; there is a strong role for bridge entities like **SEWA, Mann Deshi, SRLMs** to build confidence and aspirations of women entrepreneurs and ensure they are credit-willing and credit-ready. Establishing such a partnership would be highly beneficial as it could facilitate the sharing of effective solutions, empirical evidence, and data related to women's entrepreneurship in India. Additionally, it would play a pivotal role in influencing policy decisions and constructing a compelling argument for making women entrepreneurs appealing to potential lenders.

Last, but not the least, partnerships with the private sector can serve as a central pathway to unlock scale when it comes to extending credit to the last mile and creating larger funds. Public-private partnership initiatives have the potential to pool large financial resources to establish dedicated funds or loan guarantee schemes specifically designed to support women-owned enterprises. By mitigating the perceived risks associated with lending to women entrepreneurs, such initiatives can incentivize financial institutions to extend credit on more favourable terms, including lower interest rates, longer repayment periods, and reduced collateral requirements.

In a strategic alliance, the **STEP program, which focuses on supporting women entrepreneurs, has joined forces with FICCI FLO**.[19] This partnership leverages their collective experience and expertise, in conjunction with their extensive networks and nationwide presence, to facilitate the provision of training, mentorship, and networking opportunities across the country.

> **The Women Entrepreneurs Finance Initiative (We-Fi) is a collaborative endeavour involving governments, multilateral development banks, and various public and private sector entities. It aims to address the financial and non-financial challenges confronting small and medium enterprises led or owned by women in developing nations. Notably, this partnership has yielded significant benefits, providing financial and non-financial assistance to more than 50,000 women-led small and medium enterprises.**

[19] Times Of India

Way Forward

Recently, at the BRICS Business Forum, the Prime Minister of India informed that 'India will soon become a $5 trillion economy'. For India to reach this ambitious goal, promoting women's entrepreneurship is critical. Currently, **women entrepreneurs represent 14% of all enterprises** in India. Of this, **80% are in the micro/ small segment, and 90% have not availed any form of formal financing**, using their own capital to survive and sustain their businesses. To promote women's entrepreneurship meaningfully, the barrier to finance must be addressed through collective action. Key stakeholders – the Government, Banking Institutions, Private Sector and Civil Society – must work in tandem to address the challenge of the "missing middle" in India's women-led enterprises.

In pursuit of this objective, this whitepaper suggests establishing a **Women Entrepreneurs' Finance Alliance** in a tiered-capacity, which will bring together various stakeholders at national, state, district and block level to facilitate significant and institutional changes. This Alliance will serve multiple important functions, including:

1. Sex-Disaggregated Evidence Generation and Data Sharing

a. Gather sex-disaggregated **data and evidence** to understand how women owned micro and small businesses interact with the formal financial system.
b. Encourage collaboration with industry players to **exchange knowledge and innovative solutions** that improve women's access to financial services. This can involve creating and sharing research papers, thought leadership pieces, policy briefs, blogs, and infographics.
c. Build **evidence, processes, frameworks** for mobilising finance and directing capital to underserved women entrepreneurs.
d. More data is getting unpacked and formalised with the advent of alternate credit rating tools - this is an apt opportunity to mainstream them as a pathway to formalise small/ semi-formal women's businesses.
e. Data and insights will be key to demonstrate evidence-backed solution testing and build a business case for making this segment of women entrepreneurs attractive to lenders.

2. Driving Innovative Solutions

a. The Alliance should strive to implement **360° solutions in the areas of finance, markets, and skills development** for women entrepreneurs in collaboration with intermediary institutions and digital platforms like ONDC, RBIH, and WEP. **Non-linear, outsized impact will come with unpacking of digital public infrastructure and its intersection with gender norms, markets, and financial innovation**
b. Work with financial institutions and women-led businesses to **design customised financial products** tailored to the unique needs of women entrepreneurs, which will encourage financial institutions to adopt **alternative credit scoring models.**[20]

[20] UN Women

c. The Alliance should collaborate with regulatory stakeholders to establish **specific lending targets for women entrepreneurs** with banks and other financial institutions. By making women MSMEs a priority sector for banks and financial institutions, they will be incentivized to reach out to and support a greater number of female entrepreneurs.
d. Encourage banks and other financial institutions to provide their **services as packages in the form of bundling financial services to ensure that the cost of the financial services** is reduced for women entrepreneurs.
e. DPIs can play a transformative role in enabling inclusion of excluded categories of small, informal women entrepreneurs into the realm of formal finance through creating robust proxies for creditworthiness and financial trackers; hardwiring data sharing across financial providers; and hosting product innovation in the form of sachet funds, GST-based loans, etc
f. Product innovations are needed in financial instruments in the form of shorter repayment intervals (daily, fortnightly), performance-based grants, sachet funds, among others promote inclusivity and affordability for the traditionally unbankable women entrepreneurs.

Davinta, based in India, is an AI-powered digital lending platform focused on offering credit and financial products to underserved communities in rural areas. Leveraging data from both traditional and alternative sources, it provides personalized recommendations for financial products aligned to each customer's needs. To date, Davinta has acquired close to 15,000 registered users, with women making up an overwhelming majority at 12,000 users. It aims not just to drive financial inclusion but also wholesome social inclusion by creating equal life opportunities.

3. Capacity Building and Gender Sensitisation

a. Large segments of "entrepreneurs of need" are not mainstreamed into lending systems. Lending institutions need to play a more proactive role in ensuring their systems are open to inclusion.
b. The Alliance should **develop content and resources to educate banking professionals** about gender-specific interventions to include more women borrowers in their services.
c. Given that women often report lower satisfaction with banking services and that banks may perceive women as less financially knowledgeable, **gender sensitization of bank staff** is essential to improve the gender aspect of banking, addressing differences in the financial needs, preferences, and behaviour of women.[21]

[21] World Bank

d. The Alliance can also help banks and other financial institutions enhance their ability to collect and **analyse gender-disaggregated data on the performance** of small and medium-sized enterprises, which will enable them to better assess the risk profile of their SME customers.[22]
e. Regional rural banks (RRBs) play a pivotal role in driving financial inclusion and economic growth for women in rural areas as women deposits accounted for 50% share in incremental deposits in RRBs during FY19 and FY23.[23] To support women entrepreneurs in expanding their business and moving towards the missing middle, the Alliance must make **efforts to strengthen RRBs** by building capacity and providing them with the necessary resources and technology support.

4. Advocacy

a. The Alliance can use its collective influence to **promote the integration of alternative credit scoring models** in both banking and non-banking financial institutions to expand their customer base.
b. DPIs and government ministries (eg. MSME) need to work together to bring in economies of scale and lower the cost of credit for financial providers and enterprises.
c. The Alliance should convene key stakeholders from the private sector, government, and development organisations to **advance digital financial services for women.** Policymakers should ensure that there are no undue obstacles for these private sector actors to participate in the financial system, creating a level playing field.
d. Make women entrepreneurs/ borrowers more attractive to lenders by aligning their portfolios with mainstreaming targets and innovating newer models of finance which lower the risk and the cost of serving this segment
e. By highlighting **case studies and putting spotlight** on the achievements and experiences of successful women entrepreneurs, the Alliance could build a **peer movement** that serves as an inspiration for other entrepreneurs. It would also provide valuable information and share knowledge with entrepreneurs.
f. The Alliance could also **map the outcomes of the credit programmes with SDGs.** thereby participation of women entrepreneurs with sustainability objectives. This would be beneficial in unlocking funding and enabling implementation of programmes at a larger scale.
g. Utilise **pay for success instruments** to support women borrowers through outcome funding that will financially reward the investors on the successful delivery of outcomes

There's an imminent need for unanimous consensus across stakeholders with specific solutions for building evidence and processes, formats, frameworks for timely and accurate insights to ascertain and analyse what works with respect to mobilising finance and directing capital to underserved women entrepreneurs.

A better understanding of contexts within which women's enterprises operate, coupled with a greater appreciation of specific non-financial services needed by women entrepreneurs can assist financial institutions, policymakers, and support organisations in engaging with them in a more focused manner.

[22] World Bank
[23] State Bank of India