Study to assess the working capital needs of women's collective enterprises

SEWA Cooperative Federation

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MSC MicroSave Consulting

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Abbreviations

B2B	Business-to-business
WCE	Women-led Collective enterprise
CEO	Chief Executive Officer
COGS	Cost of goods sold
COVID-19	Coronavirus disease
FSP	Financial service provider
HNI	High Net Worth Individual
KYC	Know your customer
MSME	Micro, small, and medium enterprises
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-government organization
PAN	Personal Account Number
PO	Purchase order
ROI	Return on Investment

About the research

MSC undertook this research in partnership with SEWA Coop. Federation to understand the working capital-related challenges of women-led agriculture-based and artisan collectives enterprises.

Mission:

MSC undertook a comprehensive assessment of the demand and supply ecosystem to uncover key challenges in access to credit. The assessment sought to enable timely and effective patient capital and create a robust supply ecosystem that has a strong flow of funds and an enabling legal environment.

About the research

MSC undertook this research in partnership with SEWA Coop. Federation to understand the working capital-related challenges of agriculture-based and women-led artisan collectives enterprises.

Objectives of the study

Demand assessment of women-led agri-based and artisan collectives: The research sought to assess the need for working capital for both cooperative members and non-members of the SEWA Federation.

Supply ecosystem assessment: The research focus was to understand the challenges in enabling funds to collectives that include weak institutions, product design, and legal and regulatory concerns.

Next steps

Policy advocacy

In the next phase, MSC will support SEWA in evidence-based policy advocacy to ease the availability of working capital for the collective enterprises.

Pilot rollout

MSC will support the SEWA Federation with a pilot project on working capital funds for collectives to gather insights and lessons that can be scaled.

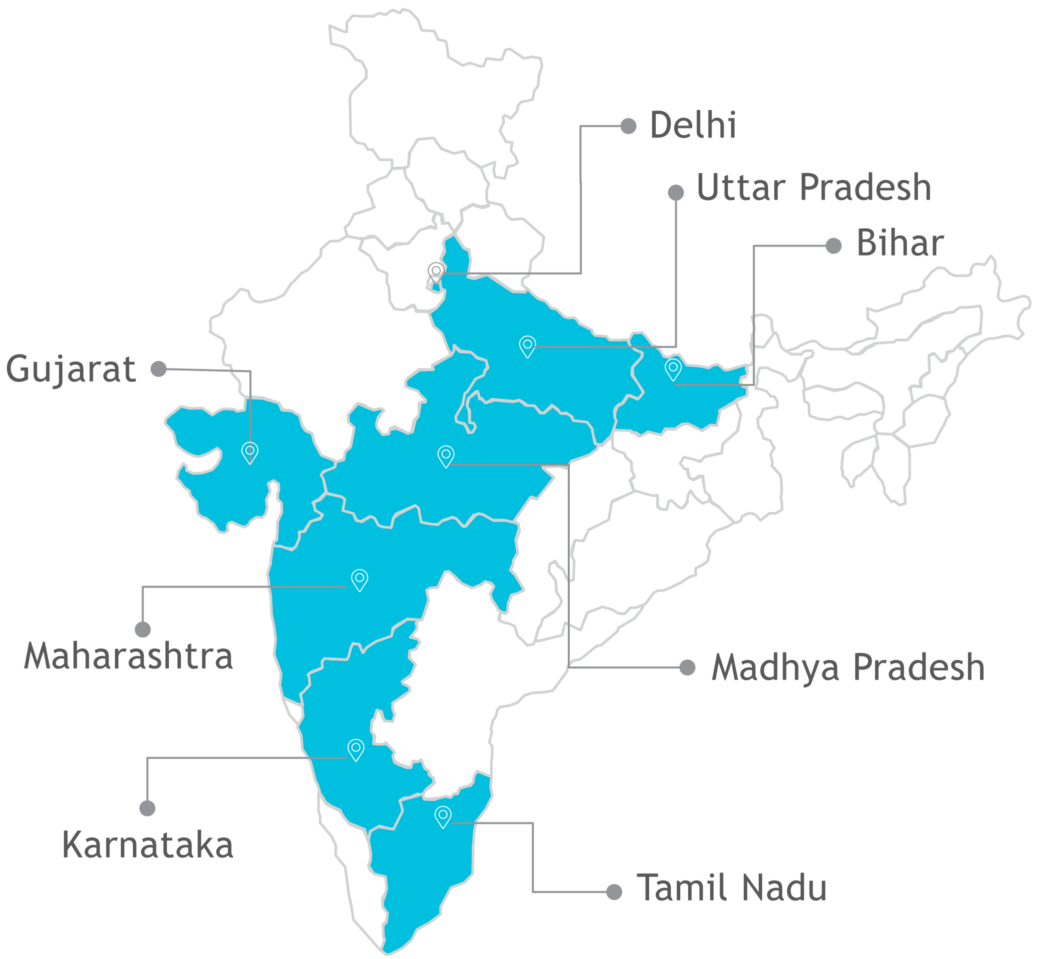
Research methodology

Research method: The study used in-depth personal interviews with the stakeholders from women-led agri-based and artisan collectives to capture their credit journey.

Demand-side research: The demand-side assessment sought to understand the purpose of working capital loans, sources for loans for these cooperatives, use of working capital loans, loan security features, rate of interest borrowers are willing to pay, and operational processes.

Supply-side ecosystem: We also interviewed stakeholders from the cooperative ecosystem, such as lenders, governing institutions, philanthropic funders, and regulators, among others. These interviews sought to understand their perspectives on working capital loans for the cooperatives, which include product design, delivery, operational processes, enablers, and challenges.

- We spoke to 20 stakeholders across the country.
- Please note that for the study, we will use the term WCE to imply women-led agri-based and women-owned artisan collectives.



Section 1:
Introduction

Problem statement: Access to credit for women-owned agricultural and artisan collectives

A study by the IFC estimated that the total annual finance requirement of women-owned enterprises in India is at least INR 1.95 trillion (USD 23.73 billion). A recent Standing Committee on Finance report estimated that the overall credit gap in India's MSME sector is worth INR 20-25 trillion (USD 243.4-304.2 billion).

"It is a double whammy for us. Access to credit is extremely difficult for artisan collectives and worse if it is owned by women."

Artisan collective representative

01 Demand-supply gap in finance for wMSMEs

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

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

02 Gender gap in access to finance for wMSMEs

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

Only 17% of wMSMEs know of financial support initiatives

Aspirations, business challenges, and documentation status of women-led collective enterprises (WCEs)

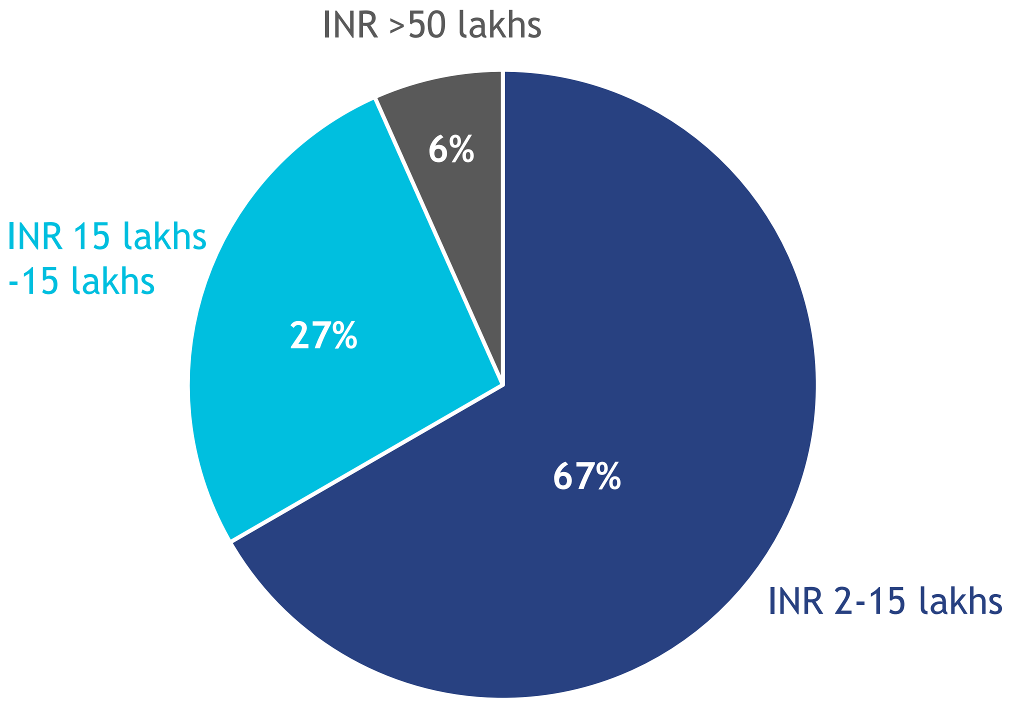
Artisan collectives and agri-based collectives aspire to build the collective and grow their business. Yet, they face some common challenges across the board and struggle with factors, such as the need for working capital, which is crucial to their growth and sustainability.

	Women-led artisan collectives	Agri-based collectives
Aspiration	• WCEs aspire toward economic empowerment, social impact, gender equality, business growth, and expansion. • More than ~75% of the WCEs want to strengthen operations, build market linkages, and grow their presence in the market. • ~25% of the WCEs aspire to expand their business through new lines of work or expand their geographical presence.	
Challenges	• WCEs reported a lack of capital as a key challenge when they sought to improve business operations. • Other challenges include difficulties in access to finance and inadequate market linkages. • WCEs face a lack of human resources and professional management, fluctuating market needs, and high raw material and input costs.	• Agri-based collectives face a lack of working capital. • They also deal with seasonal demands in agriculture and business losses. • Farm laws are stringent. • Warehouse costs are high.
Documentation	• All the collectives have business registration. • WCEs reported that they had PAN card, P&L statements, tax registrations, business incorporation cards, and trade licenses, among other documents.	• Agri-based collectives have business registration, PAN card, P&L statements, and licenses.

Section 2:
Demand-side ecosystem

Collective enterprises require high-risk and long-term capital

Credit requirement of women-led collective enterprises



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

Current credit requirement of WCEs

- More than half of the WCEs reported a credit requirement of INR 2-15 lakhs, as per MSC's analysis through primary research.
- ~27% of WCEs reported a credit requirement of INR 15-50 lakh.
- Large FPOs reported a high credit requirement of INR 50 lakh+.
- Most WCEs require credit for working capital and business expansion.
- Many WCEs had limited awareness of how to approach mainstream banks and were wary of going through that route.
- More than 50% hoped that they would get an extension on grants and will not have to access bank loans.
- 12% of WCEs perceived a gender bias in the attitude of lenders.

Key insights from the demand-side ecosystem

A range of factors affects how well these collectives can access working capital. These include a lack of access to cost-effective credit, low awareness, and the nature of the business.

Key insights

WCEs find it challenging to get loans and depend more on nonbank credit sources, such as grants, soft loans through nonprofits and nonbanking financial institutions.

These collectives lack reach, access, and understanding of the wide ecosystem of funders.

Collectives, especially in the B2B space struggle with financing long credit periods, around 90-days.

Many WCEs struggle with the need to furnish the documentation requirements for loans due to the complex documentation required by the traditional FSPs.

WCEs find documentation processes to access loans complex and cumbersome. Bridge institutions often support them during this process.

The need for collaterals and guarantees is among the biggest reasons for the lack of access to credit for WCEs.

Bridge institutions, such as SEWA play a crucial role in assistance to WCEs, as they facilitate physical verification visits from banks for loans. These visits ensure the effective use of the disbursed credit. Bridge institutions provide invaluable support to help WCEs navigate the verification process with FSPs, particularly in cases where the WCEs lack business expertise, as seen with farmer-producer organizations and artisan collectives.

WCEs struggle to get loans and depend more on nonbank credit sources

Sources	- Banks - NBFCs - Alternate sources of finance, NGOs - Savings - Parent or supporting organization	**Our study sample reveals the following:** - 33% of collective enterprises took some form of loans from banks - 80% of WCEs mainly depend on nontraditional form of funding, such as grants
Quantum, interest rate, and collateral	- Around 50% of collective enterprises took loans worth less than INR 10 lakhs. - Some collective enterprises received the loan as part of the Government of India's 10,000 Farmer Collectives program.	Interest rate: **0-16%** Collateral-free
Credit experience	Many formal sources, such as NBFCs and banks, do not lend to cooperatives and WCEs as they do not want to consider them for their portfolio, due to which many WCEs are limited exclusively to grants. The process, speed, and delivery of loans from mainstream banks remain tedious and time-consuming.	- A lot of WCEs have a significantly negative perception of the process to request and access credit. They prefer to stay away from banks in the fear of extensive paperwork, red tapism, and delays.

Factors while choosing a credit source

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

Success factors in securing a loan

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

Reasons for not securing a loan

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

MSC study

Journey of women-led collective enterprises when they access formal working capital credit

Access to financial institutions

- Identification of potential lenders by understanding the types of credit products that align with the enterprise's needs
- Assessment of the loan products offered by different lenders

Documentation and verification

- Assessment and provision of the required documentation for loan application
- Documentation, which consists of business registration and income statements, etc.

Collateral and guarantees

- Provision of collateral or financial guarantees to obtain credit from formal FSPs

Physical visits and inspection

- Physical visits by the financial institution to verify and conduct the necessary due diligence

Disbursement

- Disbursement and utilization of working capital credit, which can be lump-sum or in tranches based on the agreement with the financer

Formal sources: Banks

Collectives lack reach, access, and understanding of the broader ecosystem of funders

Even if WCEs are aware of sources of funding, they are unwilling to explore traditional loan options due to a mismatch between the expectations of lenders and collectives.

WCEs struggle to reach the right type of lenders

- Many formal sources, such as NBFCs or banks, do not lend to agri-based and artisan collectives.
- Only ~17% of WCEs were keen and able to access a loan from a bank easily as formal credit.
- Many WCEs are not aware of other alternate sources of funding or government programs.
- Some of WCEs do not approach banks as they are not confident about loan repayments, their business model may not be significantly profitable, or they expect harassment from banks.

Funders are not aware or sensitive to the nature and requirements of the collectives' business needs and aspirations.

> "Most of the banks completely neglect the funding requirements of collective enterprises. Most do not understand that these are productive loans that generate employment and capital."
>
> \- Founder of an artisan product aggregator website

More than ~75% of the WCEs

reported that they could not afford long-term loans from traditional banks or NBFCs.

Collectives, especially those in the B2B space that receive advance orders, cannot finance long credit periods

The funding gap due to the long credit periods hampers the ability of WCEs to grow the business.

Access to financial institutions

Inability to finance the long credit periods

- B2B orders constitutes around 80% of the WCEs' portfolios.
- The WCEs lack the necessary financial liquidity to fulfil the POs through the credit period **(45 to 90 days)**

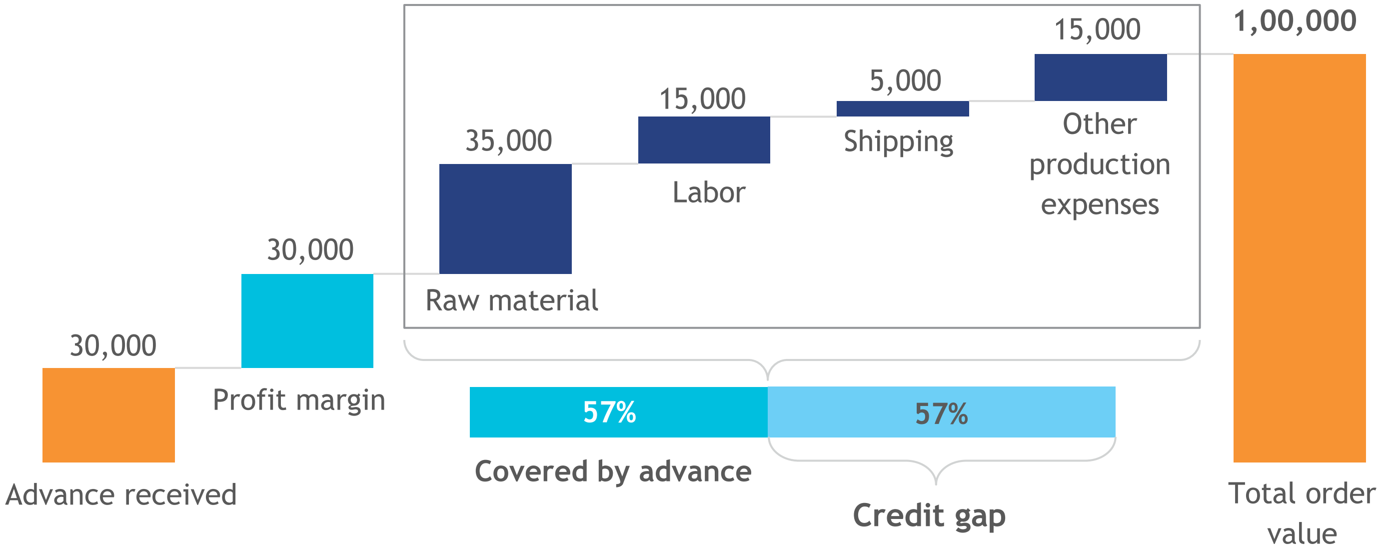
~83% of WCEs said they look for short-term working capital loans to cover for the financing gap due to these long credit periods.

Collectives, especially those in the B2B space that receive advance orders, cannot finance long credit periods

The funding gap due to the long credit periods hampers the ability of WCEs to grow the business.

Access to financial institutions

Cost structure breakdown of a typical B2B order for WCEs*



- The COGS usually consists of 70% of the total order value for the WCEs.
- The WCEs can negotiate an advance of up to 30% of the total order value. Yet, the advance value is generally not enough to cover the entire cost of production.
- Many WCEs cannot take advantage of bill discounting due to the small purchase order size.
- The WCEs require an influx of working capital financing in the form of bill discounting services to cover the ~**57% gap** in production cost.

*Primary interviews and MSC analysis

Many WCEs struggle to furnish documentation requirements for loans due to the complex conditions set by traditional FSPs and feel a strong need for support during this phase

WCEs have to furnish a range of documents and undergo complex scrutiny, which decreases their chances of receiving credit

Heavy documentation proves to be a huge barrier

- The WCEs and cooperatives struggle to provide extensive documentation to obtain loans. The requirements include business registration, ITR, financials, etc.
- Many of these organizations cannot pass this stage of the loan journey unless they receive support from an institution that can help them fulfill the basic application requirements.

Low literacy levels among the members is a key cause for the difficulties with the documentation requirements

- Stringent eligibility criteria: Women-led collectives often fail to meet eligibility criteria due to the nature of their work, their lack of credit history and documentation, and their poor business planning.
- The complexity of application processes and documentation requirements from financial institutions often pose a challenge for women's collectives.

The need for collaterals and guarantees is among the biggest reasons for the lack of access to credit for WCEs

WCEs and their members have a limited ability to furnish collaterals and guarantors for their loan applications

Most WCEs lack access to collaterals

- The WCEs need to provide collateral in the form of fixed assets, bank deposits, guarantors, and inventories, among others, when they seek to avail of formal credit.
- Most WCEs and their members have limited access to these collaterals and to the supporting institutions that can act as guarantors for the WCEs to obtain loans from traditional FSPs.

Women-led collective enterprises that seek credit are yet to have a proven profit record

- WCEs cannot avail of credit from banks, as many artisan and agri-based collectives cannot earn profit for the first few years.
- Banks have stringent requirements, and WCEs fail to show balance sheets with profit.
- Typically, artisan collectives and farmer producer organizations take anywhere between one and three years to earn net profits.
- Many WCEs depend on the support of bridge institutions until they can break even and turn profitable.

> “All the available loans in the market are upward of 18% [interest] and require collaterals and credit scores. Women-led collectives find it really difficult to build this history as they do not have a specific income structure.”
>
> - Senior management, marketplace aggregator for artisans

Journey of women-led collective enterprises to access working capital credit

Support during physical visits

- The WCEs may struggle to furnish the desired documentation and information during the physical inspections due to a lack of experience.
- Bridge institutions help provide the necessary handholding support with the documentation and other regulatory requirements during the visits conducted by the financers.

The presence of a bridge institution plays a key role to assist with the adequate utilization of the working capital received through loans

- The WCEs may not utilize the credit judiciously, which can also lead to loan defaults or delayed payments.
- Bridge institutions can help the WCEs build the plan and allocate expenses in the right direction. They can also oversee loan utilization and repayment.

Bridge institutions are instrumental to facilitate working capital credit and empower women-led CEs throughout the early-stage and growth phases

Bridge institutions play a critical role to facilitate credit to women-led CEs. These institutions range from NBFCs, such as SIDBI and NABARD, to for-profit agri financing firms, such as Samunnati, P2P lenders, such as Rang De, and nonprofits, such as PRADAN.

Bridge institutions play a catalytic role beyond financing. They empower these collective enterprises through inception to more mature stages of the business, help farmers and women access cheap credit, and provide sustained support across value chains.

Bridge institutions increase women's access to finance. WCEs with access to a bridge institution received credit even if they lacked documents or collateral (small ticket sizes up to INR 5 lakhs only).

Bridge institutions are instrumental to facilitate working capital credit and empower CEs and women-led CEs to throughout the early-stage and growth phases

Services provided by the bridge institutions

SEWA | Pradan | FWWB | Samunnati

- Financing
- Research and dissemination
- Market linkage
- Technological innovation
- Capacity building
- Marketing support
- Advocacy activities
- Access to raw materials

The sector has a strong need for bridge institutions that can enable access to adequate and patient capital

Patient capital is a type of long-term investment where the investors are willing to tie up their capital for an extended period.

Key characteristics include:

- Long-term investment
- Focus on sustainable growth and impact
- Support for innovation and social impact
- Minimal investor interference or ownership

Sources of patient capital:

- Social impact investments
- International aid
- Philanthropic investments
- Government grants or subsidies
- CSR initiatives
- Blended finance mechanisms
- Social incubators and accelerators

WCEs find bridge institutions to be a vital source of funds and enablers of credit for their working capital needs

The WCEs have a strong need for funds and prefer bridge institutions

WCEs rely heavily on bridge institutions to fulfill their credit requirements due to challenges in access to loans from traditional banks.

- Bridge institutions either fund WCEs directly or enable funds through support to WCEs through the loan application process and handholding for one to three years.
- Bridge institutions, such as SEWA, have for many years supported SHGs that seek to convert to FPOs through fund and other support.
- Bridge institutions play a crucial role to help WCEs overcome barriers, such as high interest rates, stringent collateral requirements, and inadequate business plans.

WCEs continue to demand credit from bridge institutions alongside access to bank loans

- Although WCEs have access to traditional loans from banks, they continue to demand additional credit from bridge institutions as traditional loans do not fulfill their total credit requirements.
- Bridge financing also de-risks their balance sheet through the provision of soft loans or longer repayment periods.

Bridge institutions often cannot fulfill all needs of WCEs:

- Bridge institutions often struggle to address WCEs' needs due to a lack of funds, legal challenges, and regulatory complexities.
- The market has a strong need to strengthen existing bridge institutions and also support the creation of new ones that can provide access to finance and other support to WCEs.

More than 85% of the WCEs expressed a desire for support from bridge institutions, especially for their credit needs for the subsequent year at least.

WCEs that have a connection with a bridge institution enjoy better opportunities and growth compared to similar WCEs that lack access to such bridge institutions

	Access to financial institutions	Documentation and verification	Collateral and guarantees	Physical visits and inspection	Disbursement
With bridge institutions	The WCEs find it easier to identify and access the right financer for their requirements.	The WCEs can receive assistance with the management and provision of adequate documentation.	Bridge institutions act as guarantors in some cases.	A representative of the bridge institution helps the WCEs manage the physical visits from financers.	Bridge institutions support WCEs in effective utilization of the amount obtained.
Without bridge institutions	The financers may overlook WCEs due to reasons, such as high-risk investments and portfolio mismatch, among others.	The WCEs may find it difficult to procure and furnish the required documentation.	The standalone WCEs that apply for credit generally struggle with the collateral requirements.	The WCEs may fail to represent their case adequately.	The WCEs may fail to utilize the funds effectively, and struggle with repayments in the future.

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Section 3:
Supply-side ecosystem

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We found three key subtypes of bridge institutions that support agri-based and women-led artisan collectives

Characteristic	Direct credit	Credit + value add	Non-credit support
Definition	These bridge institutions provide financial assistance to women-owned collectives without additional support services. They provide patient, long term, high-risk capital	These bridge institutions offer a combination of financial services and supplementary support to women-owned collectives, which facilitates access to both funding and resources.	These organizations focus primarily on providing nonfinancial support to women-owned collectives but also play a role in facilitating access to finance when needed.
Types	Philanthropic organizations, venture capital funds, HNIs, CSR, private equity funds	Agri-financing institutions	WES (women enterprise support) organizations, grassroots nonprofits
Key service offerings	• Financing • Collateral flexibility • Long-term financing • High-risk capital;	• Tailor-made and customized financing • Advisory services • Capacity building • Market linkages • Personalized assistance (mentorship, financial management, business planning, business strategy development)	• Ecosystem development • Policy advocacy • Capacity building • Partnership building • Market linkages • Access to funders
Examples	Acumen Foundation, BMGF, HNIs, Hearth Ventures, Upaya Social Ventures	Samunnati, FWWB	Pradan, SEWA Bharat
Aspirations/ Goals	Business growth and sustainability Returns on investments (RoI)	• Holistic support • Long-term sustainability and strengthening of collectives	• Systemic change in the collectives model • Capacity building • Facilitation of collective action

Key insights from the supply-side ecosystem

The presence and support of bridge institutions are crucial to the initial growth and sustainability of WCEs, even as many bridge institutions struggle to support WCEs amid a lack of incentives.

Key insights

- Bridge institutions are instrumental as they facilitate working capital credit and empower the women-led collective enterprises throughout the early-stage and growth phases.
- Niche bridge institutions are available, which provide tailored loan products, harbor deep industry knowledge, and lend support with market linkages.
- WCEs that have a connection with a bridge institution enjoy better opportunities and growth compared to similar WCEs that lack access to such bridge institutions
- Grant financing is a key source of funding for women-led collective enterprises. Bridge Institutions play a key role to enable grants.
- Traditional financing institutions do not have much of an incentive to lend to women-owned collectives.
- Artisan collectives and agri-based collectives often lack investor appeal due to the lack of a professional middle management.
- Bridge institutions can play a strong role to support collective enterprises in credit access alongside a host of other support services.

Existing niche bridge institutions provide tailored loan products, harbor deep industry knowledge, and lend support with market linkages

Even though these institutions exist, they often charge high interest rates and cater mostly to organizations with positive cash flows that can pay back the loans.

Features of the loans provided by these institutions

- Tailored or custom loan products offered to the WCEs based on the borrower requirements:
  - **Amount**: Up to INR 3.5 lakhs
  - **Tenure**: 6 to 30 months
  - **Purpose**: Inventory management, salaries, OPEX, etc.
  - **Collateral**: None
  - **Documentation:** Identification, business registration, bank statements
  - **Processing fee**: 2.5%
  - **Late payment charges**: INR 200 per month
  - **Foreclosure charges**: Variable
- Even though this type of loan product will fulfill the requirements of women-led CEs, it does not target these organizations.
- Most financers cater to individual-led enterprises that have a clear chain of ownership and accountability.
- Bridge institutions are required to support the WCEs through provisions of alternate finance mechanisms, such as soft loans and revolving fund loans, among others.

A women-led artisan collective availed of a mix of grant and soft loan through a bridge institution during the COVID-19 pandemic. It helped the collective tide over credit requirements and procure raw material for masks.

The soft loan featured a low interest rate (~5%) and a grant component that helped the collective stay afloat and manage its working capital requirements during this period.

Grant financing is a considerable source of funding for women-led collective enterprises

A high proportion of women-led CEs exhibit a considerable dependency on grants for long-term financing support

Impact of grant funding on collective enterprises

- More than half the WCEs interviewed have obtained a mix of **grant and loan funding over the past three years.**
- Grants serve as a significant source of working capital for the WCEs that lack collateral. The grant component in funding typically comprises 60%-70%* of their working capital support.
- Grants played a vital role to ensure the sustainability of these businesses during crisis periods, such as COVID-19.
- Grant money is a preferable route for most collectives to obtain funds as it is easily processed, free from bureaucratic hurdles, enjoys ecosystem support, has no collateral requirement, and involves minimal paperwork.

Hybrid business model for financial support

When WCEs start operations, many register as trusts or nonprofits to access funding for developmental initiatives. As they mature, they adopt a hybrid business model and integrate social impact with financial sustainability. This involves the launch of retail brands or income-generating ventures alongside their core mission, which helps diversify revenue streams.

Accelerators and incubators

WCEs have also been increasingly trying to tap into incubator and accelerator support. These accelerators provide capacity building, market linkage, and working capital support, among others.

Bridge institutions play a crucial role in grant financing support

- **Grant funding:** Bridge institutions can either offer grants or support in the application of a grant process.
- **Funds facilitation through other funders:** Bridge institutions offer connections with impact investors, microfinance institutions, or crowdfunding platforms.
- **Capacity building:** Bridge institutions can offer capacity-building programs to strengthen the grant readiness of WCEs, alongside support in the form of proposal writing, among other areas.

*Primary research

Traditional financing institutions do not have much incentive to lend to women-owned collectives

- **Unmet credit needs:** Despite the demand, approximately 68% of the women-owned SMEs with credit needs remain unserved or underserved.
- **Lack of incentives for lenders to prioritize women-owned enterprises**: Currently, lenders have minimal incentives to lend to WCEs. They consider such lending only as a part of priority sector lending and government programs.*
- **Low risk appetite among investors**: This leads to selective funding. Lenders often prefer farmer producer organizations (FPOs) backed by self-help groups (SHGs) over non-SHG enterprises, which further widens the disparity in access to credit. Lenders prefer FPOs over artisan collectives due to their business nature and geographical concentration.
- **Initiatives by donors and the development sector:** These initiatives seek to incentivize financial institutions to lend to women, such as the IFC's blended finance support for SMEs and women entrepreneurs in emerging markets. It will make available blended finance support worth up to USD 215 million to encourage working capital loans in low-income countries. However, these initiatives are few and far and cannot address the massive gap in financing for these collectives.
- **Challenges with priority sector lending (PSL)**: These initiatives, primarily routed through institutions, such as NABARD and SIDBI, are often inaccessible or unaffordable for a significant portion of women-owned enterprises that seek credit. This gap creates further barriers for women-owned collectives when they try to access credit, which hinders their ability to grow and thrive in the market.
- **Unable to use loans meant for MSMEs**: Some forms of collective enterprises do not fall under the MSME classification and cannot benefit from cheaper loans meant for MSMEs.

"We cannot use loans or benefits that are meant for MSMEs as we have a separate legal identity."

"Bank officers consider us a nonprofit and doubt our ability to pay back the loan amounts."

- Collective enterprise representative

*MSC research

FPOs and collective enterprises often lack investor appeal due to a lack of professional middle management

More than half of the WCEs lacked a professionally-run middle management in the organizations.*

Investors perceive a lack of professionally managed collectives in poor light

Funding organizations seek high financial returns and prefer to engage with professionally managed companies led by CEOs. The WCEs often lack a clear CEO figure or professional management team, which undermines their capacity to attract investments and secure funding.

Strong business acumen is absent

Managers and founders of FPOs typically lack the business sophistication and strategic vision expected by investors, which poses challenges when FPOs and WCEs try to change perceptions and demonstrate investment potential.

The perception gap is hard to beat with financing institutions

Financing institutions believe that FPOs and collective enterprises, especially artisan collectives, are heavily focused on social impact and lack the acumen to be profitable. Funding institutions, especially those that prioritize profitability, prefer to park their money in already-established collectives that have a more professional and proven track record.

80% of the financing institutions MSC spoke to do not consider artisan collectives a profitable segment both in terms of the perception gap and the lack of a professionally managed business.

*Primary research

Bridge institutions can play a strong role to support collective enterprises in credit access alongside a host of other support services

A strong need exists to strengthen existing bridge institutions and develop more such robust institutions to address the financing gaps of women-owned collectives.

Bridge institutions are suitably placed to act as enablers of credit and other support to women-owned collective enterprises:

- Mission to create social impact
- Strong grassroots presence
- Experience and understanding of the sectors (agri, artisan)
- Focus on long-term development and growth of collectives
- Part of the India growth story of collectives
- Already part of networks of SHGs that will graduate to collectives
- Strong understanding of government programs and linkages with existing business models of collectives
- Presence in the donor ecosystem and proven track record with donors and funders
- Existing corpus of funds that can be used for collectives
- Ability to bear the risks for the target collectives

What is in it for the bridge institutions

Bridge institutions can act as enablers for finance for collectives

- Ensure financial returns
- Earn donor facilitation fee
- Enjoy equity share in collectives
- Be part of creating social impact
- Create a robust business model
- Diversify their existing portfolio
- Use innovation and technology to build collective enterprises and share profits
- Become a part of growing sectors, such as agri-based industries or the artisan and handicrafts industry

Existing bridge institutions face various challenges when they seek to support collectives

The different types of bridge institutions—direct funders, service providers, and hybrid organizations face a range of challenges when they seek to support women-owned collectives.*

Lack of capacity to garner funds

Bridge institutions often lack the capacity to build and increase their fund size to cater to collectives' needs.

High cost of funding

Bridge institutions incur a high cost when they structure loan products, processes around due diligence, verifications, and documentation, especially if the loan size is minimal.

Long lock-in periods for funds

Bridge institutions typically fund collectives for a period of one to three years until they turn profitable.

Lack of awareness of agri-based and artisan sector businesses

Bridge institutions have a weak understanding of the business models of artisan and handicrafts businesses and agri-based businesses. These sectors are perceived as risky. Hence, an in-depth understanding of these businesses is crucial for bridge institutions to invest in such businesses.

*MSC research

Existing bridge institutions face various challenges when they seek to support collectives

The different types of bridge institutions—direct funders, service providers, and hybrid organizations face a range of challenges when they seek to support women-owned collectives.*

The demand for funds is higher than its supply

The unmet demand for credit far outweighs the existing supply of funds through both traditional and nontraditional means, such as bridge institutions. Bridge institutions reject support to collectives due to the lack of available funds and resources to support them.

Lack of awareness of existing credit demands of WCEs

Bridge institutions struggle to understand the specific needs of different types of collectives, especially the on-ground needs that include costs of raw material and labor, among others. They typically need to assess the business, balance sheets, and future orders, among other factors, to provide loans.

Lack of processes to measure the impact of existing funds

Bridge institutions consider it risky to provide credit to agri-based and artisan sectors. Moreover, impact measurement is yet to pick up, which could help bridge institutions focus on those WCEs with greater promise.

Regulatory and legal challenges

Bridge institutions face multiple regulatory challenges when they fund collectives. For instance, CSR funds cannot be used for non-programmatic funds. So, when the CSR funds dry up, so does funding for collectives. Also, FCRA regulations have strict mandates that often restrict how bridge institutions can financially support WCEs.

*MSC research

SEWA faces multiple challenges when it seeks to lend to collective enterprises

Legal and regulatory challenges

SEWA is registered as a nonprofit trust and faces restrictions and challenges in terms of access to funds and their utilization for long-term support of for-profit collectives.

Limited source of funds and conditionalities

SEWA sources existing funds mostly through CSR funds. Usually, these are small ticket-size funds. They also receive philanthropic funding but that is not enough to cater to the massive demand for credit.

Massive demand from a large number of collectives

SEWA has more than 106 member cooperatives across six sectors. The organization has increasingly received requests for working capital from non-SEWA members as well. The existing funds are not enough to support the current requirement of credit or loans it receives.

Provision of all services in the value chain

SEWA focuses on the complete value chain with grant support, which includes loans, market linkages, capacity building, and professional support. These elements are cost- and time-intensive. This results in SEWA being unable to scale a specific solution, such as working capital support, to other collectives.

Lack of a revenue model

Pure grant-based support often does not lead to the sustainability and growth of collectives. It is a long-term process. Instead, a fee-based service is increasingly becoming a practice. Revenue-based financing also ensures that bridge institutions do not need to support collectives unless they have a clear revenue path.

Section 4:
Recommendations

SEWA faces multiple challenges in funding collective enterprises, which limit its ability to provide long-term support to collectives or grow its support base to cover non-SEWA collectives

SEWA can focus on key strategic solutions to build a stronger funding and support ecosystem for its collectives in the long term

Revenue-based or fee-based structures

- Transition toward a revenue-based financing model to promote sustainability and self-sufficiency among collectives
- Offer fee-based services to generate additional revenue streams and reduce the dependence on grant funding

Diverse funding sources

- Explore avenues beyond CSR funds to diversify funding sources, such as impact investors, development finance institutions, and government grants
- Establish partnerships with financial institutions to access loan capital or credit facilities tailored to collectives

Public-private partnerships

- Establish public-private partnership (PPP) structures that define clear roles and responsibilities for donors, SEWA, and collectives
- Create long-term projects with SEWA as a service provider and clear impact measurement frameworks

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SEWA faces multiple challenges in funding collective enterprises, which limit its ability to provide long-term support to collectives or grow its support base to cover non-SEWA collectives

Key actions

01

Pitch decks to showcase success and fund pitches

Create visually appealing and compelling pitch decks that highlight SEWA's mission, impact, and value proposition to attract funders and investors

02

Roadshows and presentations to focused funders

Organize roadshows and networking events to showcase SEWA’s work, connect with potential funders, and foster partnerships within the ecosystem

03

Toolkits and frameworks to streamline the management of collectives

Build easy-to-use toolkits and frameworks to streamline support to collectives that currently receive support from SEWA

04

Impact measurement frameworks and toolkits

Develop robust impact measurement frameworks to track and communicate the social and economic outcomes of SEWA's initiatives to enhance transparency and accountability

05

Explore tech-based solutions

Invest in technology-enabled platforms and tools to streamline service delivery, improve operational efficiency, and scale impact across multiple collectives

06

Perception gap advocacy to funders

Build advocacy initiatives to improve the perception gaps for artisan collectives among funders and regulators

SEWA can develop the ideal model bridge institution and build loan products tailored to the needs of the type of collectives

This is a suggested 8Ps framework to build an ideal model of the loan product. It breaks down the details of "who, what, when, where, why, and how" for the loan product.

8 Ps of the product based on the market research

Product
Develop a tailored financial product suite through a focus on practicality and accessibility, and cater to the WCEs' needs

Price
Enhance the affordability and attractiveness of credit products and build a competitive price structure to make it viable for WCEs

Process
Implement structured processes with defined maps for each stage and streamlined templated roles to facilitate procedures and strengthen borrower relationships

Place
Use both online and offline channels to ensure a thorough assessment and collections process

Promotion
Market the loan products through the bridge institutions that support WCEs through a focus on the benefits

People
Create a team of highly trained professionals with specialized skills in finance, who seek to build relationships

Physical evidence
Support the loan products through physical and digital documentation that aligns with community enterprises' preferences to ensure clarity and accessibility

Positioning
Position the loan product as accessible, affordable, and attainable, with an emphasis on its low cost, flexible terms, and professional services to attract borrowers

Please click here to read more details about the 8P parameters

Annex 1

Research methodology

The study used in-depth personal interviews and focus group discussions with the stakeholders that support the FPOs and WCEs alongside members of women-led collective enterprises to capture their credit journey. This is supplemented by supply-side interviews with NBFCs and other financial service providers to understand their experience of disbursing credit to micro and small female entrepreneurs. The focus on qualitative research helps generate a more nuanced understanding of the experiences, challenges, and perspectives of stakeholders that support and operate these enterprises, and those that provide credit.

We interviewed a total of 20 stakeholders from both the supply-side and demand-side ecosystem.

Demand-side

- Karnabhumi FPO
- Action for Social Advancement (ASA)
- RRPFPC (Ram Rahim Pragati Farmer Producer Company)
- Krishi Vikas
- Trupti Nashta Mandli
- Lok Swasthya Mandali
- Abodana Handicrafts Cooperative
- Baroda Credit Cooperative
- Ruaab
- SEWA Bharat
- Industree
- Khargewale
- Atapi-Ujaas-Mahila Bachat and Dhiran Grahak Sahakari Mandli- a Women's Cooperative
- Atapi-Vivekanand Khedut Mandali

Supply-side

- Samunnati
- FWWB
- Kinara Capital
- Rang de
- PRADAN
- Utkarsh Small Finance Bank

Annex 2

The 8P framework to develop loan products specific to the needs of collective enterprises

Parameter	Sub-parameters	Insights
Product Loan amount	• The loan amount should be tailored to the needs of the borrowers and determined based on the cash flow assessment	• Based on the requirements of the WCEs, the working capital loan requirement varies between INR 1 lakh and INR 10 lakhs.
Repayment frequency	• Monthly • Bimonthly • Flexible	• The WCEs prefer a flexible repayment frequency that enables them to maintain adequate liquidity for their cash cycle. • The loan should include a provision for prepayment with no or minimal penalty levied on prepayment. This gives the WCEs the desired flexibility and appetite to obtain more loans.
Tenure and instalment size	• Between 12 to 24 months	• The WCEs prefer some flexibility in the loan tenure, especially for working capital loans. A tenure between 12-24 months is most suited for WCEs to obtain and repay working capital loans.
Collateral or guarantor	• Bridge institution guarantor model ◦ The bridge institution can become a collective guarantor for all the WCEs it works with • Collateral-free loans based on the cash flow or purchase order assessment	• The bridge institution guarantor model is a convenient way for the WCEs to access the formal credit system, as the bridge institutions act as a guarantor to prevent any defaults. This is especially helpful when the funder is not the bridge institution but a bank or other NBFC.

The 8P framework to develop loan products specific to the needs of collective enterprises

Parameter	Sub-parameters	Insights
Product Documentation	Minimal and easy documentation requirement • Identification and KYC for individual and business (Udyam registration, etc.) • Bank statements • Optional GST/ITR documents	Minimal documentation requirements enable the WCEs to apply easily for loans without much external support from the bridge institutions. Members of these organizations have low literacy levels and often struggle to arrange the required documentation for the loans.
Price Interest rate	Between 10% to 14%	The product needs to be priced competitively for the WCEs to be able to repay. A lower interest rate improves the demand and increases the willingness to pay.
Loan processing fee	Nil or a flat fee of INR 1,000	A high loan processing fee discourages many WCEs when they apply for formal credit. A high processing fee increases the cost to obtain loans for most of the smaller WCEs.
Computing method	Reducing interest	A reducing rate enables the borrowers to pay less interest over the loan tenure, which leads to an overall cheaper loan. The reducing interest rate has become an industry standard for small-scale loans. A reducing rate provides the WCEs with breathing room due to the lower outlay compared to a flat rate of interest.

The 8P framework to develop loan products specific to the needs of collective enterprises

Parameter	Sub-parameters	Insights
Price Prepayment penalties	No prepayment penalties	Prepayment penalties deter many WCEs from repaying their loans and get back on the loan cycle. No prepayment penalty enables the WCEs to repay the loans quickly if they have excess cash, and supports a healthy credit habit.
Process	Defined process maps for different aspects of the loan journey • Lead generation and borrower sourcing • Verification and assessment of the documentation • Field visits for verification and finalization • Disbursement • Collection • Relationship management	The product needs to be priced competitively for the WCEs to be able to repay. A lower interest rate improves the demand and increases the willingness to pay.
Place	Online channels of loan disbursement Both online and offline channels for assessment, inspection, and recollection	Many competitors offer personalized offline services to the borrowers through the relationship managers who manage borrower grievances, recollection, etc. They also provide customized repayment to the borrowers, as some borrowers are not comfortable with automatic recollection through NACH.

The 8P framework to develop loan products specific to the needs of collective enterprises

Parameter	Sub-parameters	Insights
Promotion	Promotion of loan products through the bridge institutions that support the WCEs	The product promotion should seek to highlight the positive aspects of the loan product, such as low interest rate, simple documentation, fast processing.
People	Highly trained individuals with specialized skills in lending activities	The personnel should be highly trained to be able to deal with the borrowers and lending products. The staff needs to maintain closer relationships with the borrowers to enhance the perception of safety and assurance as they offer the loan products.
Physical evidence	Through tailored online and offline channels	
Positioning	Creation of a perception among borrowers that the loan product is accessible, affordable, and easily attainable Positioning of the product to highlight key features, such as low cost, flexible terms, professional services, etc.	

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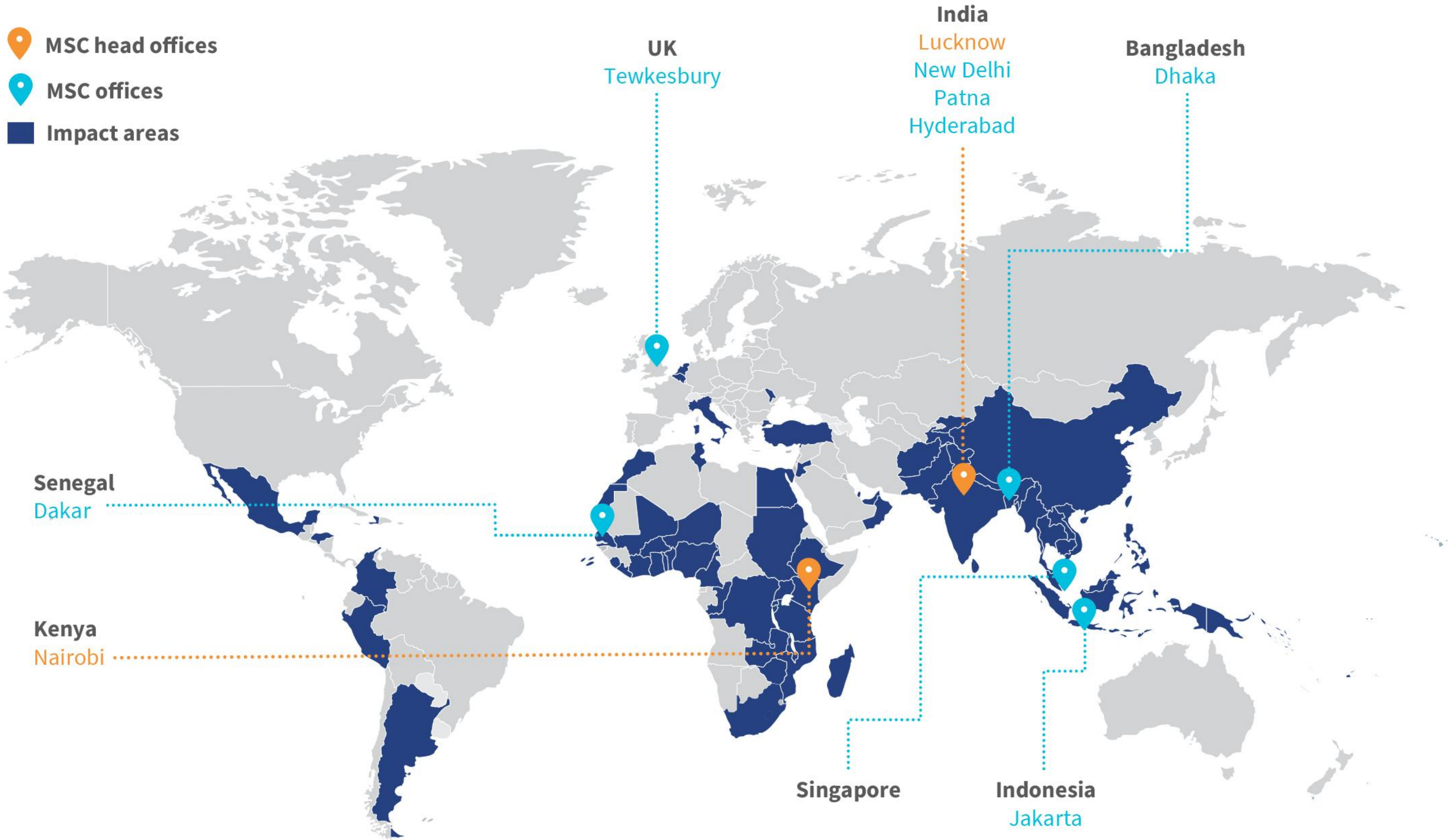

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