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Opportunities & Constraints of Women Owned Very Small Enterprises in India

Introduction

Micro, Small and Medium Enterprises (MSMEs) in India face a variety of challenges that constrain their growth prospects. These include infrastructure gaps, limited access to technology and information, difficulties in accessing talent, and inadequate access to capital. Majority of MSMEs rely on their own funds or loans from family and friends to meet their business needs since accessing capital from institutional sources often requires collateral. The challenge in accessing capital from formal financial institutions (FIs) is exacerbated for women entrepreneurs. The COVID-19 pandemic has also had disproportionately adverse effects on women entrepreneurs. Interactions with FIs reveal that they hesitate to view WVSEs as an addressable market segment. The report explores this challenge and focuses on how FIs can better target this segment in a post COVID environment.

Key Highlights

Some of the important observations and findings of the report have been listed down below:

- The micro-credit needs of women are currently addressed to a large extent by microfinance institutions.
- IFC's research has revealed that about 18 percent of the 15 million women-owned micro-enterprises in India are WVSEs. Estimated credit demand from these 2.7 million WVSEs is INR 836 billion (\$11.4 billion). A vast majority of women entrepreneurs in India have never applied for loans to formal FIs.
- Social biases and conditioning, inability to access the right kind of finance, lack of access to non-financial services, and accounting and regulatory compliance related issues form some of the key challenges faced by women entrepreneurs in India.
- Following are the criteria used for defining WVSE –
 - Loan Eligibility: INR 2 lakhs to 1 million
 - No. of Employees: <20
 - Annual Turnover: INR 1 million to 5 million
- The report identifies manufacturing, services and trading activities where WVSEs are concentrated.
- Interactions with WVSEs revealed that in addition to simplified access to finance, WVSEs that perform well benefit from a supportive entrepreneurial ecosystem.

- The report notes that Interactions with FIs revealed that they do not view WVSEs as an addressable market segment. It suggests the following ways for FIs to address the traditional perception and to cater to WVSEs –
 - Analyze sex-disaggregated data; use it to devise products with features more relevant to women borrowers
 - Build a gender-diverse workforce
 - Leverage partnerships with intermediaries that support WVSEs to help in sourcing leads (maybe through women-specific government schemes)
 - Partner with financial technology companies that leverage alternate methods such as psychometric and behavioral data for credit assessment.
 - Include elements from behavioral economics to nudge the WVSE borrowers towards good repayment behavior.

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