# Study on Informal Sector Lending Practices in India

Final Report

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## Foreword

As known, formal and informal sources of finance have been coexistent in credit markets in India. Reports also indicate that over the years, the share of formal credit in total outstanding debt has been rising, especially pursuant to the financial inclusion initiatives of the Reserve Bank of India and legislations of various State Governments to regulate moneylenders. However, notwithstanding the significant advancements made, adequate / timely credit delivery and procedural requirements apparently continue to be major hurdles faced by microenterprises, particularly in the smaller segment, in accessing credit from formal institutions. On the supply side, information asymmetry and lack of proven tools for risk assessment are among the vital challenges to be overcome.

In this backdrop, SIDBI commissioned this study with a view to acquire updated perspectives on sources of credit for microenterprises and entrepreneurs. Aim was to assess supply as well as demand side causes for the persisting inadequacy of credit and dependence of microenterprises on informal channels for their financial needs. Emphasis was on gaining deeper insights into facets of informal sources of credit such as why clients continue to avail loans from such sources, credit features including interest rates, repayment conditions & processing time and market size.

Using a sample of 1737 enterprises in locations across ten states of the country, the study has attempted to analyse credit preferences of micro entrepreneurs. The study has managed to cover these aspects well and provides both analysis of important trends and linkages between factors and outcomes as well as insights which may be useful to stakeholders. To sum up, while informal lending would always be there in various forms, the learnings may help equip the formal channels improve in delivery and reach.

It is hoped that the study will facilitate design of appropriate policy interventions to bridge the credit gap in respect of informal sector micro enterprises. Comments and suggestions on the report are welcome.

We acknowledge the efforts put in by IFMR Lead who undertook the study as also the financial support for the study extended by KfW, Germany. Lastly, the study would not have been possible without the contribution made by the team at SIDBI Foundation for Micro Credit (SFMC) SIDBI.

**Ajay Kumar Kapur**
Dy Managing Director, SIDBI
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**Advisory Committee: Dr. Ajaykumar Tannirkulam, Ms. Parul Agarwal, and Mr. Amulya Krishna Champatiray**

**Research Team and Authors (in alphabetical order): Ms. Kriti Chouhan, Mr. Vinith Kurian, Mr. Suraj Nair, Ms. Anisha Singh**

# Executive Summary

Ensuring that micro-enterprises have adequate access to affordable credit is crucial for their short-term financial needs, and longer-term growth plans. Traditionally, micro-enterprises have faced several barriers and challenges in accessing formal credit. It has been widely observed that banks are usually hesitant to lend to small-scale businesses due to difficulties in assessing credit worthiness and risk. Additionally, the loan terms offered by formal institutions are in many cases not in line with the immediate needs of these businesses - often falling short of their capital requirements, or suiting their specific needs and context. This has led to a significant credit gap for micro and small enterprises (MSMEs), estimated to be around INR 13 trillion in 2016.  As a result, micro-enterprises are known to rely on informal sources of credit for their needs. Research on the topic suggests that many features of informal credit, which increase the ease of access and convenience of borrowers, are highly valued; in many cases enterprises are willing to pay a 'premium' (in the form of higher interest rates to informal sources). Despite the penetration of formal finance having steadily increased over the last few decades, there remains a fairly persistent reliance on informal credit (which has steadily declined due to the numerous actions of the government and other institutions, but has not ceased to exist).

This study aims to take a closer look at the reasons for the persistence of informal credit, with the aim of understanding when, and why micro-enterprises resort to informal borrowing. By studying a sample of 1737 enterprises across 10 districts (in 10 states), this study seeks to better understand i) the sources of credit available to micro-enterprises, ii) the decision-making strategy adopted by in terms of choosing a particular credit source, iii) the alternative sources of borrowing that micro enterprises rely on, especially informal credit sources such as money lenders, relatives, business network, etc. as well as role played by channels such as NBFCs, SFBs, MFIs, the BC network and SHGs in providing targeted credit product iv) assess the gap between the demand and supply of credit and the size of the formal and informal credit markets in the study areas, and v) provide recommendations on what policy levers need to be utilized to strengthen the role of formal sources in these regions for micro enterprises. Additionally, this was supplemented with data collected from micro-enterprises, by also collecting data from informal lenders in each of the study districts. Lastly, the study included focus group discussions with micro-enterprise owners in each of the study districts, thus obtaining detailed qualitative insights that provide information on the main areas of focus mentioned earlier.

The study includes micro-enterprises having the following characteristics i) total asset value less than INR 25 lakhs, ii) must have taken at least one formal and/or informal loan for business purposes in the last 3 years, iii) engages between 2-10 full-time employees, and iv) has been active for at least 24 months at the time of survey. In each district, clusters were identified, and additionally, efforts were taken to ensure that all parts of the district were represented. Purposive sampling was undertaken, in order to obtain a final sample that reflects the distribution of manufacturing, trading and service enterprises in each of the districts. Further details on the study design and methodology may be found in Section 2. Below, the key findings from the study are highlighted. These findings, along-with detailed analyses are discussed in Section 3.

On the whole, the study finds that the penetration of both formal and informal credit has increased during the period 2014-2018. The number of formal loans per enterprise, on average, is higher than the number of informal loans per enterprise. Additionally, the average size of micro-enterprise borrowing (formal and informal) has also increased during the same period. Thus, informal lending has continued to persist, despite all the changes in the policy landscape that are focused on micro-enterprises[1].

Our data suggests that nearly 70% of the business owners feel that they experience seasonality, in terms of fluctuations in the revenues and costs incurred from their business enterprise, across various months of the calendar year. The period between March to May and the months of October and November are reported to be months where they generate maximum revenues due to the occurrence of major national and regional festivals, and the reopening of schools. Similarly, enterprises report the period between June and August as months wherein they experience lower revenues. The absence of any major religious festivals and the monsoon season were cited by most respondents as reasons for this decline. Overall, around 52% of the sample report not being able to meet their working capital and other monetary requirements for business activities across the year, and smaller enterprises in particular resort to informal lending to make up the shortfalls. This is an important finding, and highlights an important gap in formal financial service provision.

The study captures detailed data on the respondents' interactions with formal/ informal borrowers, and on their usage of the availed credit. A detailed analysis of the same is presented in sections 3.5-3.11. As per the data, the majority of the enterprises in our sample report borrowing from formal sources. However, female-owned businesses[2] appear to have less access to and usage of bank credit than male-owned businesses. Of all loans reported by micro-enterprises having female owners, 14% are from NBFCs, 15% are from moneylenders, and only 24.3% are availed from banks.

Over 68% of loans that have been repaid and about 73% of loans that are currently outstanding are from formal sources. Among the formal sources, public sector banks and among the informal sources, family/friends/relatives are the most commonly reported source of credit. Surprisingly, only 8% (approx.) of the sample reports borrowing from moneylenders. More than 65% enterprises also report having taken good/services on credit from their suppliers with considerable district wise variation. The role of supplier networks is thus particularly important with regards to micro-enterprises, and this relationship can be leveraged by formal financial institutions to improve the penetration of formal finance. A higher share of enterprises report borrowing from formal sources if they have ever taken goods/services on credit from their suppliers as compared to those who have not taken goods on credit.

The study finds that credit preferences are often determined by specific needs, and may vary accordingly - the two most common purposes of loans are to buy materials/stocks for business and to acquire new assets for an existing business. Additionally, micro entrepreneurs in the sample prefer to use bank credit for buying inputs and high cost machinery or land, while

[1] It must be noted that our sample consists of micro-enterprises that have borrowed formally or informally in the preceeding 3 years.
[2] It must be noted that the number of female-owned enterprises in our sample remains low.

informal sources are preferred for urgent borrowing requirements. The study also gathers data on the mismatch between the amount applied for, and the amount received enterprises in the sample. On the whole for currently outstanding loans, the average amount demanded is INR 2,62,167 while that for repaid loans is INR 2,02,935. However, the amount actually disbursed is lower (INR 2,45,128 and INR 1,87,540 for outstanding and repaid loans respectively) pointing towards a mismatch between the two. This mismatch is lower for informal borrowing, highlighting one reason why micro-enterprises might prefer to resort to such sources. Broadly, banks (public/ private/ cooperative) appear to serve the > INR 3 Lakh loan size segment (on average), while NBFCs/MFIs/SFBs all seem to serve the requirements for loans under INR 1 Lakh. Thus, there does not explicitly appear to be a source catering to the INR 1 lakh to INR 3 Lakh loan size segment, and this is another aspect of the credit gap that must be considered as well.

The study also gathers information on micro-enterprise satisfaction with different credit sources. Micro entrepreneurs are most satisfied with informal sources on the flexibility of repayment schedule, waiting time, follow up requirements and convenience of getting the loan. While the turn-around time (TAT) for most sources is under 15 days, the TAT for banks is one the higher side (30-60 days) – this is a major source of dissatisfaction as far as bank credit processes are concerned. Respondents are satisfied with formal sources on aspects like the availability of larger loan sizes, and cheaper interest rate. It is observed that for more than half of the outstanding loans (irrespective of loan source), enterprises report being asked about contact details of references, value of assets, income and expense seasonality and credit history during the process of obtaining the loan.

The study findings suggest that while the awareness of various government schemes is better than expected among the study respondents, there is scope for further improvement. In Section 3.4, around 63% of the sample is aware of the Prime Minister's Mudra Yojana (PMMY), and about 28% of the sample is aware of the Udyog Aadhar Memorandum (UAM). However, 32% of the sample report not being aware of any of the schemes, thus suggesting that this is a key area for improvement. Improving the awareness of respondents can translate into significant improvements in the utilization of available formal financial services.

To further understand the credit features from the supply side that are contributing toward the continued reliance on informal credit, the study interviewed informal lenders across the 10 districts. The findings suggest that for one in every two lenders, lending is their primary business and mainly use their own savings to fund lending. A smaller, yet significant, proportion of lenders rely on formal and informal credit to finance their lending business. The credit processes implemented by informal lenders in terms of screening and repayments, somewhat mirror processes implemented by formal sources. In terms of screening, informal lenders conduct intensive screening through vetting of guarantor, checking outstanding client debt and checking for availability of collateral. In terms of repayments, majority of lenders collect monthly instalments and few allow ad-hoc collections as per client convenience. Consequences of late payment include multiple visits from the lender, charging a penalty and keeping collateral till full payment.

Although the financial landscape in India has been evolving with the penetration of NBFCs and MFIs, a majority of informal lenders feel there has been no change in the competition they face from the expansion of formal institutions over the past two years. For the few who do report experiencing an increase in competition, MFIs, with low ticket sizes and flexibility in screening and documentation requirements, are the main compteititors. Still, informal lenders face significant challenges in lending, these include a difficult due diligence process, as well as a high number of defaulters to informal credit.

Overall, several key insights emerge in terms of the manner in which micro-entrepreneurs and micro-enterprises interact with formal and informal credit markets in the study areas. In line with the main study objectives, the report includes a discussion of the main findings on the sources of finance for micro-enterprises, their relative preferences and challenges in accessing different credit sources, the resulting inadequacy of credit, and reliance on alternative and informal sources to address credit requirements in Section 3. From the findings, there are four main reasons for the persistence of informal credit markets in our study areas:

1) Customer preferences and satisfaction with informal sources on key credit processes
2) Mismatches between amount applied for, and amount disbursed
3) Inability of formal sources/ formal products to help smooth cash-flow volatility
4) Gaps in Awareness – government schemes, and financial products

These findings point toward the possibility of enhancing the role of NBFCs/MFIs and SFBs through improvements in process, delivery and product design - these are discussed further in Section 5.

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# 1 Introduction

Micro and small enterprises are an important engine of economic growth in India, generating significant employment opportunities[3], and fostering innovation[i]. MSEs can serve as a vehicle out of poverty, and afford a sustainable livelihood to a large number of low income individuals/ households. The MSME sector comprises 63.3[4] million establishments (Table 1), of which around 31% are engaged in manufacturing, 33% in services, and the remaining in trade (36%).[ii] 99% of these establishments are classified as micro-enterprises, providing employment to 1076.19 lakh persons. This accounts for almost 97% of total employment generated by the sector. Over half of these are rural enterprises (Table 1), and can be found across the country- even in lower income states[iii].

**Table 1. Urban Rural Distribution of MSMEs by Category**

| | Micro | Small | Medium | Total |
|---|---|---|---|---|
| **Rural** | 324.09 | 0.78 | 0.01 | 324.88 |
| **Urban** | 306.43 | 2.53 | 0.04 | 309 |
| **All** | 630.52 | 3.31 | 0.05 | 633.88 |

*Source: MSME Annual Report 2017-18*

Despite its crucial role in India's economy, micro and small enterprises in particular face key challenges that hinder the pursuit of higher rates of growth. These range from a lack of knowledge or technical expertise, to poor access to the infrastructure needed to improve profitability and/or expansion. Additionally, in India, highly competitive markets, and smaller firm sizes prevent the realization of any benefits of scale. The most pressing issue faced, however, is the lack of access to adequate credit. The availability and access to credit at affordable rates is an important determinant in the short-term working capital needs, and the long-term growth plans of micro and small enterprises in particular. However, the fact that 78.2% of non-agricultural enterprises in the country are self-financed highlights the significant gap in the access to capital for this sector.

[3] The MSME section employs around 11.1 million people and accounting for 29% of the country's GDP (Annual MSME report 2017-18 (data for 2015-16))

[4] National Sample Survey (NSS) 73rd round (Note: 6th Economic Census 2013 estimates 58.5 million establishments to be in oeprations

**Table 2. Sectoral Deployment of Credit to MSMEs (in Trillion INR)**

| **Category** | **Mar-16** | **Mar-17** | **Feb-18** |
|---|---|---|---|
| Micro & Small | 3.71 | 3.70 | 3.70 |
| Medium | 1.15 | 1.05 | 1.03 |
| Large | 22.44 | 22.05 | 21.54 |
| Priority Sector Lending | 8.5 | 9.0 | 9.2 |

*Source: RBI Data*

The credit gap faced by MSMEs in 2012-13 amounted to INR 1 trillion and INR 8.9 trillion for the formal and informal enterprises respectively[iv]. In 2016, it was estimated that the total finance requirement of the MSME sector was around INR 32.5 trillion ($650 billion). Of this, INR 26 trillion ($ 520 Billion) was debt demand, while the remainder was equity demand[v]. In March 2016, the total outstanding loan of the banking system to MSME sector stood at around 11.1 trillion rupees[vi] - this suggests that over half the credit needs of the sector were being met by informal sources. As of February 2018, the total sectoral deployment of credit (Table 2) in the sector (including priority sector lending) stood at INR 13.9 trillion[vii], having registered a marginal 1% increase from the previous financial year. These numbers reveal the stark contrast between the estimated need of INR 26 trillion, and the available supply from formal sources. In the same period, 'large industry' establishments had access to majority of available institutional credit - around 82% of the total outstanding loan of the banking system[viii].

There are several factors that contribute to the existence of this credit gap. It has been widely observed that banks are usually hesitant to lend to small-scale businesses due to difficulties in assessing credit worthiness and risk. At the same time, the loan terms offered by microfinance institutions are not in line with the needs of these businesses, often falling short of their capital requirements, or are not easily available at the right moment. These gaps in formal credit provision, access and availability are often addressed by relying on informal lenders. Traditionally, the credit markets in India have indeed been characterized by the co-existence of both formal and informal sources of finance. The share of informal credit in total outstanding debt has been decreasing over the period from 1950 till date due to various financial inclusion initiatives of the Reserve Bank of India (RBI)[ix] and legislations of the various state governments to regulate moneylenders' distinct advantages on critical aspects (eg. timely loan disbursement, ticket size and greater repayment flexibility). Despite this, informal credit markets continue to thrive and flourish – particularly in rural India.

Several studies have put forth the suggestions that informal credit is the final resort, for credit-constrained borrowers (Ghosh et al, 2000; Bell, 1990). Additionally, in countries like China and India, there is a perception that the limited supply of bank credit, in combination with poor government implementation capacity and the limitations of extant micro-credit programs are factors that contribute to the persistence of the informal credit market (Tsai, 2004). Existing literature on this subject also suggests that unregistered firms rely mostly on informal financing as they often face considerable constraints to register, and access formal sources of finance[x]. A study conducted by IFMR-LEAD[xi] found merchants in the survey sample, who experience highly volatile cash flows, predominantly conduct their day to day investment activities through reinvestment of daily savings and income. Such observations would suggest that these merchants would appreciate capital offerings from formal institutions to help drive the growth and expansion of these enterprises. In contrast, however, the study found that two out of every three merchants in the survey sample were unsatisfied with their current formal lenders. This was chiefly due to the indirect costs (eg. travel) involved in using banks as well as the lengthy disbursement processes characteristic of loan applications from formal institutions.

In the theoretical approach adopted by Straub (2005), borrowers are cognizant of the costs of borrowing informally when they make the choice of lending source. The study shows that the choice between institutional and non-institutional lenders depends on the cost of registration, initial wealth, collateral, and the relative efficiency of credit markets[xii]. Similarly, de Paula and Scheinkman (2007), in their study on the implications of access (or lack thereof) to formal credit, show that entrepreneurs' decision to borrow from a certain source may be based on a cost-benefit analysis to weigh the possibility of evading taxes and regulation costs, given imperfect access to formal credit[xiii]. Credit is also priced higher in informal markets due to the higher risk involved (Bell, 1990) - informal markets are tighter, with high barriers of entry for new informal lenders, (and therefore lower competition), which increases the price of informal credit. These findings suggest that these factors, which increase the ease of access and convenience of borrowers are highly valued, and in many cases enterprises are willing to pay a 'premium' (in the form of higher interest rates to informal sources).

Research has shown that the age and size of the enterprise, along-with existing outstanding borrowings and liabilities influence the use of informal credit[xiv] (Hanedar, Altunbas and Bazzana 2014). Available evidence suggests that most micro and small enterprises in India experience some fluctuations in their cash flows thereby affecting their capacity to repay. There is some evidence to show that informal loans do not require explicitly regular interest payments, and are flexible in this regard. Mirroring this, it has been shown[xv] that introducing a two-month grace period, before the formal credit repayment cycle begins, help clients take better investment decisions and increase profits in the long run. Thus, it is clear that there exist a few factors that determine the preference of micro-enterprises with regard to credit sources. However, there is a need for further research to understand these factors, and their inter-linkages and inform better product and service design.

From a policy standpoint, it is imperative to better understand the factors that influence the choice of lender (formal or informal) for micro-enterprises, in order to tackle the persistent inadequacy of credit to this segment. Going forward, it is important to build the evidence base on the variety of credit sources available to micro enterprises and micro entrepreneurs, including alternate channels of credit (both formal and informal) in India. This can have implications for financial inclusion programmes that focus on promoting access to finance, but pay inadequate attention to delivery and design and a lack of focus on retaining customers within the formal financial system[xvi]. There is a need for research to understand the barriers to accessing credit from different sourcesand reasons why micro enterprises at large have access to insufficient credit. Additionally, data must be collected on the size of various institutional and non-institutional credit markets, the role of non-institutional sources in conjunction with formal lending institutions, the evolving role of channels such as small finance banks and MFIs in meeting the credit requirements of micro enterprises and how they can be scaled up. The existing literature that provides insights into the borrowing habits of micro-enterprises is small, but rapidly growing.

It must be noted that limited research exists, that directly gathers data from informal lenders; Bolnick (1992), for instance, directly interviews moneylenders in Malawi. There is also a dearth of adequate information on various aspects such as the price-setting behaviour of informal lenders, and market dynamics. For example, Bell (1990) also shows that informal credit markets are tighter, with high barriers of entry for new informal lenders, (and therefore lower competition), which increases the price of informal credit. By gathering data from both micro-enterprises and a sample of informal lenders, this study seeks to add to expand the existing evidence base, and provide detailed insights on micro-enterprises borrowing behaviour. It is also vital to understand the nature and dynamics of informal lending markets, as such information will help characterize and understand the persistence of informal credit in a more thorough manner. By interviewing a sample of informal lenders in each of the study districts, the report aims to provide a good overview on the nature of informal credit markets, and the changes they have undergone (in terms of informal lending practices) in light of the fast changing landscape of formal financial service provision in India.

# 2 Study Design

This section highlights the study objectives, geographies, methodology and sampling strategy adopted and mentions the key limitations.

This study aims to address the gaps in research that have been highlighted above. To this end, the main study objectives are to obtain detailed insights on:

i. the various sources of finance for microenterprises and micro entrepreneurs

ii. the difficulties in accessing the credit from different sources.

iii. the reasons for persistence of overall inadequacy of credit to microenterprises.

iv. the role of informal credit sources including moneylenders, relatives, traders, etc. in meeting the credit requirements of the micro entrepreneurs.

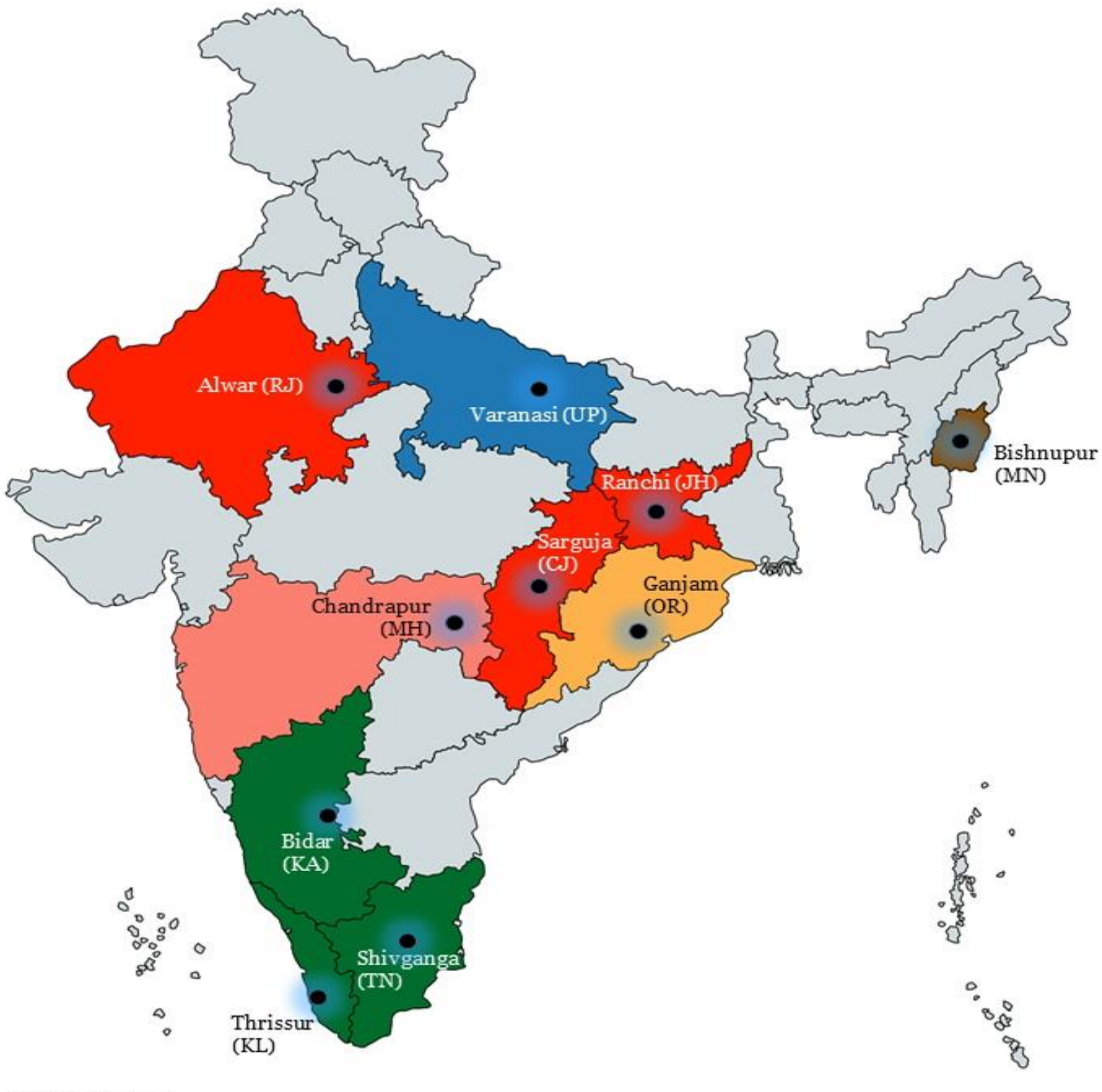
v. the size of various formal/informal credit markets.

vi. Assess the extent to which alternative channels such as NBFCs, MFIs, BCs and SHGs are meeting the credit requirements of microenterprises and the possibility of enhancing their role.

## 2.1 Study Geography

The study is conducted across 10 districts in India. These districts vary by the CRISIL Inclusix Score[5], branch penetration as per CRISIL, and MFIN MicroMeter[xvii] estimates on MFI penetration, heat on loan amount disbursed, and heat on number of financial institutions. The 10 districts are highlighted below.

**Figure 1: Study Geographies**




[5] The CRISIL Inclusix score is an index to measure the extent of financial inclusion along four parameters of basic financial services – penetration of branches, deposits, credit and insurance.

## 2.2 Methodology

In order to meet the study objectives, it is important to have both demand and supply side information in order to provide well-rounded insights on the topic at hand. With this in mind, this study adopts the following approach involving a micro-enterprise survey, an informal lenders survey, and focus group discussions in the study areas. Further details on each of these is provided below.

1) **Micro-enterprise Surveys** – The aim of this survey is to gather quantitative data from a sample of micro-enterprises, covering aspects such as:
   - Enterprise characteristics - size, profitability, aspirations
   - Financial services - access, usage, barriers, and perceptions
   - Borrowing profiles – source of credit, amount, terms of credit, default consequences
   - Assessment of credit needs – frequency and seasonality of loan requirement, repayment structures and delivery channels
   - Specific barriers to accessing credit, perceptions of lenders and motivation behind choice of lender

2) **Informal Lenders Survey –** The informal lenders survey aims to obtain detailed information from a sample of informal lenders in the study areas, the main areas of interest being supply-side perspectives on:
   - Understanding client typographies, and perceptions on the seasonality of demand and supply
   - Marketing efforts and screening/decision-making processes
   - Ticket size, contract structures and terms of credit
   - Source of funds
   - Challenges faced by informal lenders

3) **Focus Group Discussions -** In each of the study areas, the study includes 2 focus group discussions with 8-10 micro-entrepreneurs each, in order to gather additional insights on the manner in which micro-entrepreneurs and enterprises form their credit preferences, and perceive the formal and informal financial landscape at present. The study also gathers some information on the barriers and challenges faced by these enterprises in accessing credit in a timely and affordable fashion.

## 2.3 Sampling and Respondent Selection

The following steps are involved in the selection of respondents:

- Scoping Exercise: The aim of this scoping exercise is to identify the major clusters in each district, and additionally gather information on the types of prevalent economic activity.
- Sampling: Following the scoping exercise, the study relies on stratified purposive sampling to ensure a representative sample of the main economic activities in across manufacturing, trading, and service segments in the overall sample of micro-enterprises.

### 2.3.1 Sampling Criteria: Micro-enterprises

Overall, across the 10 districts, a total sample of 1737 micro-enterprises was identified. The sample was selected based on the following inclusion criteria, which ensures that the study gathers information from those enterprises that have prior experience with formal/ informal borrowing.

- Total asset value less than INR 25 lakhs (Definition of micro-enterprises)
- Taken at least one formal and/or informal loan for business purposes in the last 3 years
- Engage between 2-10 full-time employees
- Has been active for at least 24 months at the time of survey

### 2.3.2 Sampling Criteria – Informal Lenders

It is quite challenging to identify and survey informal lenders, due to numerous reasons. For example, sample respondents are not always comfortable in sharing details regarding the informal lender(s) they borrow from. Informal lenders also prefer to avoid interacting with unfamiliar individuals, thus obtaining an appointment for an interview or survey is quite challenging without the help of a known intermediary. In order to identify the sample, the following approaches were adopted:

- Information through local networks: The research team visited common public spaces in the study areas, and spent 2-3 hours talking to people moving in and out of that space with the aim of observing/gathering some information about the number, frequency of visit and location of informal lenders in that market area/cluster.

- Information collected through enterprise owners: The enterprise survey captured informal borrowings of the owners, these owners were then asked some details about the informal lenders they are/were reliant on, and when/where they might be in a given market area/cluster.

**Sample Size**

| Study Area | Entrepreneurs | Informal Lenders |
|---|---|---|
| Bidar (Karnataka) | 180 | 15 |
| Alwar (Rajasthan) | 180 | 15 |
| Ranchi (Jharkhand) | 180 | 16 |
| Varanasi (Uttar Pradesh) | 180 | 16 |
| Sivaganga (Tamil Nadu) | 179 | 22 |
| Thrissur (Kerala) | 180 | 15 |
| Surguja (Chattisgarh) | 180 | 19 |
| Chandrapur (Maharashtra) | 180 | 18 |
| Bishnupur (Manipur) | 180 | 16 |
| Ganjam (Odisha) | 118 | 18 |
| **Total** | **1737** | **170** |

## 2.4 Study Limitations

The current study focuses on the challenges micro-enterprises face with formal credit and the informal channels they approach to fill the gap. Though the study aims to capture a comprehensive list of variables, some thematic approaches have been left out of the focus of this study:

1. The study does not directly comment on the adoption and efficacy of Government implemented schemes and policies toward micro-enterprises. However, the study assesses the awareness of such schemes.
2. Due to the short timeline and expanse of geography to be covered, the study does not comment on the awareness, adoption and usage of digital platforms such as mobile wallets, point of sales machines, etc. for the purposes of disbursement and repayment of credit.
3. The study has a limited focus on supply side challenges faced by formal lenders in providing micro-enterprises with credit facilities.
4. The study adopts a purposive sampling approach in order to ensure that the district level variations in economic activity are captured in sufficient detail. In other words, the sample size for specific segments (MTS) is not proportional to the actual sizes of these segments.

a. The resulting analysis of credit in the region is not directly influenced by this sampling strategy – the actual selection of enterprises within each segment is ultimately random.

b. However, it must be noted that the sample is restricted to only micro-enterprises that have repaid a formal or informal loan in the last 12 months, or have a formal or informal loan currently outstanding. In other words, our sample does not cover people who have “never accessed formal or informal credit”. This must be kept in mind while going through the data analysis that is presented in this report, particularly with regards to the size of the credit gap, and trends in formal borrowing.

# 3 Findings

As mentioned above, they study surveyed 1737 micro entrepreneurs across the 10 study districts in order to understand the various sources of finance for microenterprises and micro entrepreneurs and assess the difficulties in accessing credit from these different sources. The collected data has been used to ascertain the challenges in accessing formal credit, and the resulting the reasons for persistence of overall inadequacy of credit to microenterprises. This section also presents findings from the informal lender survey, thus adding perspectives from the supply side to round off the discussion.

This chapter is divided into 12 sections. A brief overview of the contents of each section is summarized below:

## 3.1 Sample Overview

This section provides a profile of micro enterprises differentiated by the sector of business activity they engage in, the type of ownership structure they have, the number of years in business and the size of the business gauged by the size of business assets and the number of employees. The section also provides details on the socio economic and demographic indicators of micro entrepreneurs.

## 3.2 Key Findings: Credit Data

This section highlights the key findings from the data on credit including sources of credit, purpose of borrowing and credit preferences, credit features, credit mismatch and loan process and customer satisfaction.

## 3.3 Credit Usage – Trends

This section presents trends observed in the credit data, focusing on the period 2014 to 2018. In addition to the primary data collected from the study, the section also uses RBIs data on base interest rates.

## 3.4 Sources of Credit

This section presents findings on sources of credit from which micro enterprises have borrowed and how the share of formal and informal sources changes with type of enterprise, quantum of loan demanded, age and asset size of enterprises.

## 3.5 Purpose of Borrowing and Credit Preferences

This section highlights the most commonly reported purposes for which micro enterprises in the sample have borrowed and also details the manner in which micro-enterprises vary their choice of credit source based on various different needs and requirements.

## 3.6 Credit Features

This section provides an overview of the characteristics of loans taken by the micro enterprises in the sample and details lending characteristics of each source of credit. The section also compares the sources of credit in terms of ticket size, interest rate, turnaround time, loan duration and additional expenses incurred in order to obtain the loan.

## 3.7 Credit Mismatch

This section highlights the difference in the amount applied for and the final amount disbursed as loan and how this mismatch varies by the type of enterprise, source of credit, quantum of loan demanded, age and asset size of the micro enterprises.

## 3.8 Loan Process and Customer Satisfaction

This section gives an overview of the level of satisfaction with various sources of credit on different aspects of the process of procuring credit and throws light on the experiences of micro enterprises with the banks. This section also highlights the differences in the loan process adopted by formal and informal sources of credit.

## 3.9 Informal Lending: Main Findings from the Supply Side

This section provides a summary of the key findings gathered from interviews with informal lenders on the supply side. This covers their market size, screening methods, loan features and challenges faced.

## 3.10 Seasonality in Business

This section provides an overview of the seasonality faced by the micro enterprises in business in terms of cash flow volatilities and the ability to meet gaps. The section also presents findings on financial management practices adopted by the enterprises to be able to cope with seasonal volatilities.

## 3.11 Enterprise Ecosystem

This section gives an overview of business networks of the micro enterprises in the sample in terms of their suppliers, business associations they may be part of and the benefits of being part of a business association. The section also highlights findings on the growth in business experienced by micro enterprises as compared to last year and their aspirations to expand in the future and the various barriers to expansion faced by the micro enterprises in the sample.

## 3.12 Awareness of Schemes

This section presents findings on the familiarity of the enterprises owners with various government schemes like the Pradhan Mantri Mudra Yojana (PMMY), Udyog Aadhaar Scheme and the Credit Guarantee Scheme.

## 3.1 Sample Overview

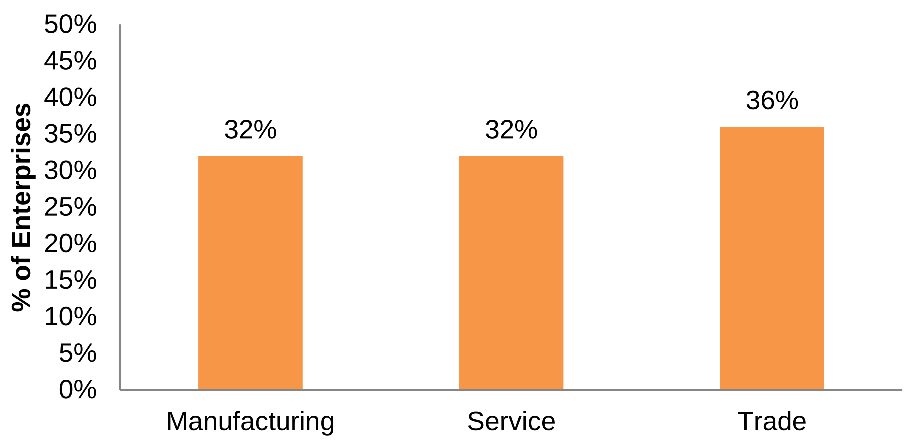
### 3.1.1 Profile of Microenterprises

The needs of micro enterprises vary with differences in the characteristics of the enterprise. This section provides a profile of micro enterprises differentiated by the sector of business activity they engage in, the type of ownership structure they have, the number of years in business and the size of the business gauged by the size of business assets and the number of employees. Variations across these characteristics have implications on the access and interaction of these enterprises with various sources of credit as well as the challenges and difficulties they face in business growth, discussed in detail in later sections.

**Sectoral Representation**

As per the sampling strategy adopted, the final sample of enterprises surveyed is adequately represented by the different sectors of business activity; manufacturing, services and trading; as represented in Figure 2 below. A total of 562, (32%) Manufacturing based enterprises, 556 (32%) Service based enterprises and 619 (36%) Trading enterprises, were covered. The district-wise disaggregation of enterprises by sector is presented in the Appendix: Table 20.

**Figure 2: Enterprises by Type of Business Activity**




**Type of Ownership**

In terms of the ownership structure, out of 1737 respondents, 1441 (83%) of the enterprises surveyed are owned by individuals[6], 205 (12%) are owned by households[7] and the remaining 50 (3%) of enterprises are owned jointly with members outside of the household. In terms of gender of the business owners, 1384 (80%) of enterprises had owners that were all male. 81 (5%) of enterprises had owners that were all female while 272 (15%) of enterprises had owners that were both male and female.

[6] Enterprises having a single owner

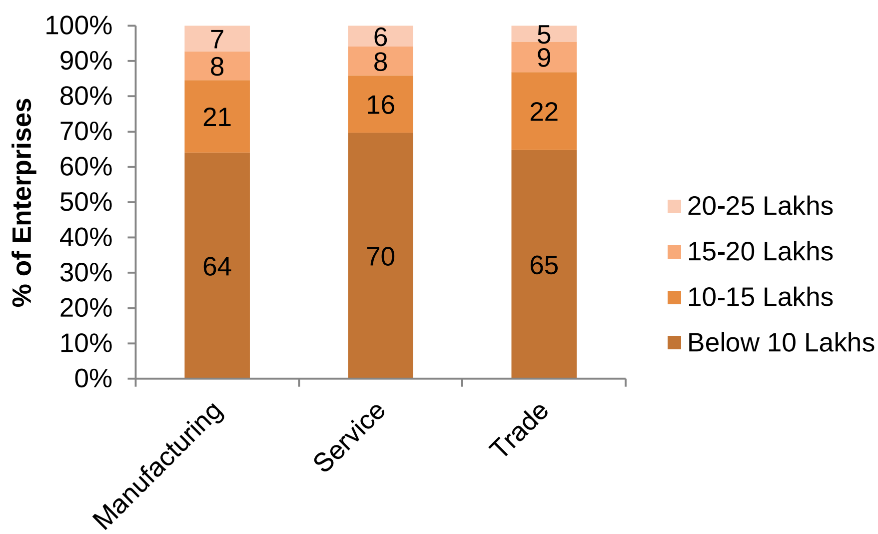
[7] Enterprises owned jointly by members within a household

**Size of Business: Assets**

An understanding of the size of businesses is essential in determining their interaction with the credit process. The capacity to take on debt and the access to formal sources of credit is different for different sizes of businesses. Asset size, therefore, is an important indicator of the capacity of a business to borrow from formal vis-a-vis informal sources of credit as well as the quantum of borrowing required and received by the business. Size of businesses can also influence their ability to manage seasonal financial volatilities with larger businesses having better financial management practices to tide over short-term cash flow inadequacies. Figure 3 shows the sample composition of estimated size of assets[8] across the sectors of business activity. Over 66% of the 1737 micro enterprises in the sample have an asset size below INR 10 Lakhs, 342 (20%) of enterprises have assets between INR 10-15 lakhs, 144 (8%) of enterprises have assets between INR 15-20 lakhs while 102 (6%) of enterprises have an asset size of between INR 20 lakhs and less than 25 Lakhs. Sivaganga (Tamil Nadu) (26%) and Thrissur (Kerala) (15%) have a higher number of larger enterprises with asset size less than INR 25 lakhs[9].

There is no significant variation in sample composition in terms of estimated size of business assets for enterprises across the sectors of business activity.

**Figure 3: Estimated Size of Assets by Type of Business Enterprise**




[8] Business Asset Size inclusive of transportation vehicles, land/ premise for business use, gold, furniture and machinery/ equipment/ tools.
[9] This is representative of the variation in asset sizes found in the area and not a bias in sampling.

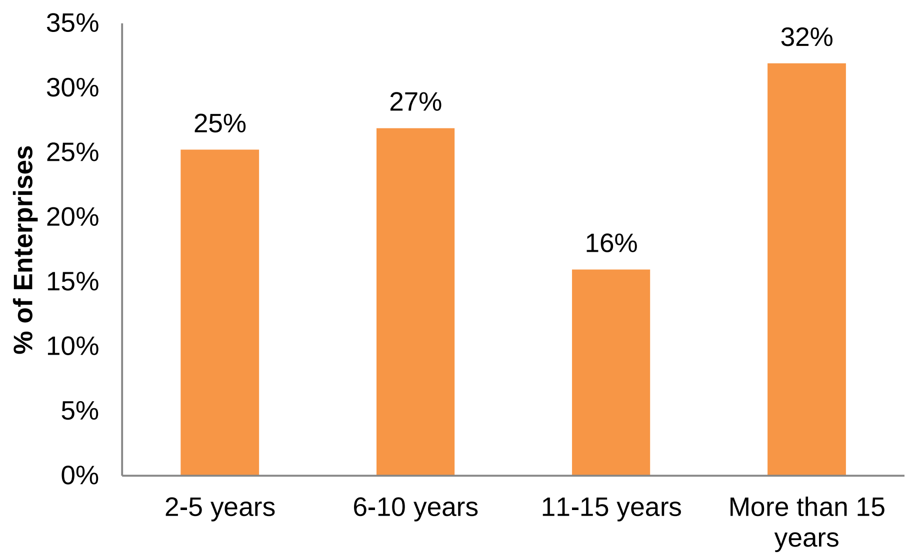
**Size of Enterprise: Employees**

The inclusion criterion for the sample covers enterprises that employ between 2-10 full time employees[10] (inclusive of the business owner). Out of 1737 enterprises surveyed, 1412 (81%) reported employing 2 to 3 full time employees, 261 (15%) of enterprises employed between 4-6 employees while the remaining 64 (4%) of enterprises reported employing between 7 and 10 employees. Across districts, Thrissur – Kerala (45%) and Sivaganga – Tamil Nadu (35%) have a higher proportion of enterprises employing greater than 3 full – time employees compared to other districts (19%) within the sample.

**Age of Micro Enterprise (Years in Business)**

Credit requirements for businesses can differ by the age of the enterprise. Newer enterprises require capital for investments while older firms require working capital and capital for expansion of business activities. Years in Business can also have an effect on an enterprise's resilience and capacity to deal with cash flows. The sample has an adequate representation in terms of years in business.  25% of enterprises were less than 5 years old, 27% of enterprises were between 6-10 years old, 33% of enterprises surveyed have been in existence for over 15 years. Sivaganga district (Tamil Nadu) (55%) has a higher proportion of enterprises operating for over 15 years. A mapping of the variations in age profile of the enterprises in the sample in terms of credit requirement and credit mismatch is provided in the section on Credit Mismatch.

**Figure 4: Age of Micro Enterprises**




[10] Full time Employees - who work more than 6 hours a day and 5 or more days each week)

### 3.1.2 Profile of Micro Entrepreneurs

The survey asks questions to capture information on socio-economic indicators such as level of education, social category and availability of documentation and demographic indicators such as age and household characteristics to identify the profile of micro entrepreneurs and provide adequate representation in the sample. Differences across these parameters can have an effect on the access and quantum requirement of credit, their ability to meet seasonal cash flow volatilities as well as their ability to leverage alternate channels of lending to satisfy their borrowing requirements.

**Age of Entrepreneurs and Level of Education**

Profiling of the business owners by age reflects 1061 (61%) of the owners in the sample are below the age of 40 years. Within this category, the highest proportion of entrepreneurs is in the age group of 30-40 years with 743 (43%) of business owners. 475 (27%) of business owners are between 41 to 50 years of age while 175 (10%) of business owners are aged between 51 and 60 years. For a district-wise disaggregation of age profile, refer to Appendix Table 19.

There is no significant difference in the composition of ages across types of enterprise, i.e. (Manufacturing, Services and Trade). Ranchi – Jharkhand (32%) and Bidar – Karnataka (28%) has a higher proportion of younger entrepreneurs below the age of 30 years while Sivaganga - Tamil Nadu (21%) has the highest proportion of entrepreneurs between the ages of 51 – 60 years among districts in the sample.

In terms of the level of education attained, 476 (27%) have not completed Class 10. About 27% of respondents have a level of education up to Class 12 (passed), and lastly, 21% of the respondents had graduate degrees or higher. Comparing the data across districts reveals that Bidar (39%), Ranchi (56%) and Ganjam (42%) have the highest proportion of business owners had an educational level below class 10 while Varanasi (36%) and Sivaganga (27%) had the highest proportion of business owners who were graduates or above.

The sample has adequate representation of business owners across age groups as well as level of education as these parameters can be reflective of the comfort with different types of credit sources as well as their understanding and familiarity with the features of available financial products. More experienced entrepreneurs may be better suited at leveraging their business networks for their borrowing requirements, while younger entrepreneurs may be more suited at adapting to technological changes that are coming into the lending ecosystem.

**Household Characteristics**

The median household size for the respondents was 5 members and the mean household size is 5.63 members per household. Further, for 1501 (86%) of the enterprises, income from their primary business is the main source of income for the household.

## Social Category

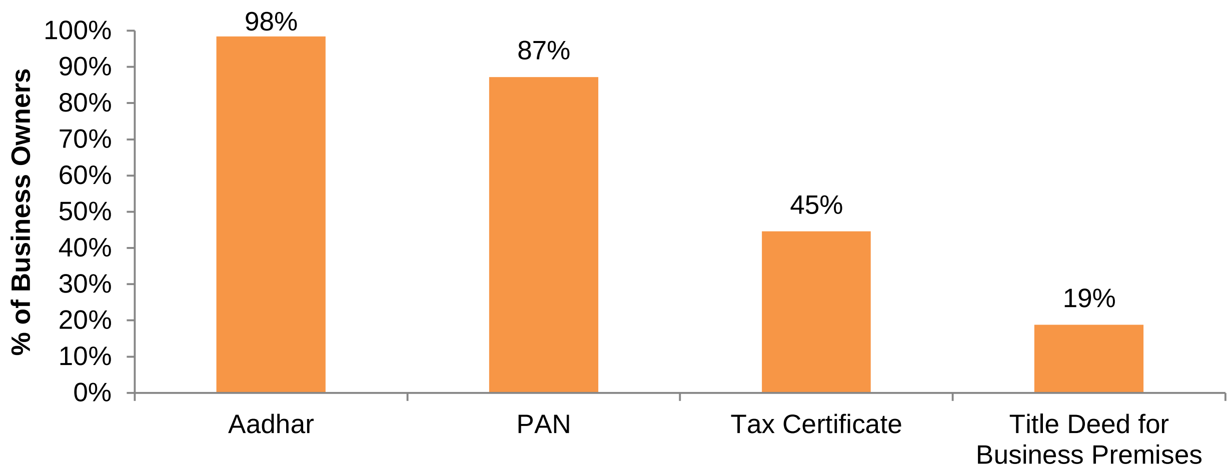
With an aim of promoting inclusive growth, several government schemes have specific provisions to be inclusive for all social categories. The MUDRA scheme, for instance, has a specific focus on the underprivileged section of the society. Nearly half of the beneficiaries under the scheme belong to underprivileged classes. This includes 20 per cent from Scheduled Caste category, 5 per cent from Scheduled Tribe category and 35 per cent from Other Backward Classes.[xviii] This survey captured data on social category across 9 districts[11]. Out of the 1557 respondents in 9 districts, 861 (55%) belong to the Other Backward Caste (OBC) category while 505 (32%) belong to the General category while 4% each belonged to Scheduled Caste (SC) and Scheduled Tribe (ST) categories. Within districts, Ranchi –23% of respondents in Ranchi (Jharkhand) belonged to the Scheduled Tribe (ST) category which is higher than the overall average.

## Availability of Documents

An understanding of the type of documents available with micro entrepreneurs can provide insights into the access and nature of borrowing from different sources of credit. Availability of official documentation from a supply of credit perspective can help in mitigating information asymmetries in assessing the credit worthiness of borrowers and provide greater access to different sources of borrowing such as NBFCs, which target MSMEs specifically. In addition to this, documents such as title deeds for business premises also serve as collateral against borrowings. In light of this, respondents were asked questions on the availability of 4 types of official documentation. 1709 (98%) respondents in the sample have an Aadhar Card and nearly 1515 (87%) also have a PAN Card which may be a reflection of the government's push during the previous financial year to link PAN with Aadhar. However, 774 (45%) have a tax certificate for their business owing largely to the unorganized structure of the enterprises surveyed. Further, 327 (19%) of the respondents have title deeds for the premises from where they operated their enterprise. Within districts, a higher proportion of enterprises in Sivaganga (38%), Bidar (31%) and Ranchi (30%) report ownership of business premises in terms of having title deed.

[11] This data is not available for the district of Bidar – Karnataka.

**Figure 5: Availability of Documentation**



## 3.2 Key Findings: Credit for Micro-Enterprises

To understand the access and usage of credit for microenterprises and microentrepreneurs across the 10 districts, the inclusion criteria for our study ensured that surveyed enterprises had taken a loan from either a formal or an informal source in the past 5 years. The study captures detail of both currently outstanding and recently repaid loans taken by the sample enterprises. Currently outstanding loans are defined as loans taken for business purposes that are currently being paid off—in other words, these are loans for business purposes whose term is currently not over. Repaid loans are loans taken for business purposes that have been repaid in the last 12 months—that is, the loan (principle and interest) has been fully paid off.

The study makes a difference between repaid loans and currently outstanding loans for the following reasons:

- Information on repaid loans is more likely to be influenced by recall bias as these are much older loans,[12] and the reporting of credit features and loan process and the reporting of informal loans may not be fully accurate.
- At the time at which the repaid loans were taken, the credit market and the enterprise's profile in terms of asset size and cash flows along are likely to have been very different.

For these reasons, the following sections focus primarily on the loans that are currently outstanding, as repaid loans may not present the most accurate picture of the current credit landscape.

A detailed analysis of the credit data captured in the study is presented in sections 3.6 to 3.11. A summary of the main observations that emerge from the credit data is presented below—detailed analysis on each of the points are available in the respective sections.

- Overall penetration of credit (formal and informal), calculated in terms of number of loans/enterprises in each year, has increased during the period 2014 to 2018.
- The average borrowing per enterprise, calculated as the average loan amount taken out by an enterprise in each year (across the total sample and irrespective of source) has also increased during the same period for both formal and informal loans.
- 68% of loans that have been repaid, and about 73% of loans that are currently outstanding, are from formal sources. Among the formal sources, public sector banks are the most commonly reported source of credit, and among the informal sources, family/friends/relatives are the most commonly reported source of credit. (Ref: Section 3.6)

[12] Loans taken out as early as 2012 have been reported, as they have been repaid only in the last 12 months

- Female-owned businesses[13] appear to avail less bank credit than male-owned businesses. Only 24.3% of the female-owned businesses in our sample avail credit from banks, as compared to 41% for male-owned businesses. Of all loans reported by microenterprises having female owners, 14% are from NBFCs, and 15% are from moneylenders.
- Moneylenders account for around 8% of all reported loans. Moneylender loans thus appear to be under-reported. (Ref: Section 3.6)
- More than 65% enterprises report having taken good/services on credit from their suppliers with considerable district-wise variation. A higher share of enterprises, irrespective of whether the loan is repaid or outstanding, report borrowing from formal sources if they have ever taken goods/services on credit from their suppliers. (Ref: Section 3.6)
- Under 50% of the 1737 business owners surveyed are aware of the various credit products offered to MSMEs as reflected in (Section 3.6)
- There is variation in credit preferences, based on the specific need of the micro-enterprises. The two most common purposes of loan are to buy materials/stocks for business and to acquire new assets for an existing business. Microentrepreneurs in the sample prefer banks for buying inputs and high-cost machinery or land and prefer informal sources for urgent requirements. (Section 3.7)
- The average quantum of borrowing for loans that are currently outstanding is INR 2,45,128 and that for repaid loans is INR 1,87,540. The average interest rate charged by formal sources is about 18% (median, 12%) and that by informal sources is about 34% (median, 24%) for outstanding loans. (Section 3.8)
- While the average borrowing from a bank is in the INR 3 Lakh to INR 4 Lakh range, NBFCs/MFIs/SFBs, along with SHGs and informal lenders all cater to the under-INR 1 Lakh category, in terms of loan size. This suggests that there could be a potential gap in supply for loans in the INR 1 Lakh to 3 Lakh category (Section 3.8)
- The average amount applied as a loan by enterprises in the sample with currently outstanding loans is INR 2,62,167 while that for repaid loans is INR 2,02,935. However, the amount actually disbursed is lower (INR 2,45,128 and INR 1,87,540 for outstanding and repaid loans respectively) pointing towards a mismatch between the two. There is considerable variation in the average mismatch between the amount applied for and the amount received as loan that is currently outstanding across sources of credit. (Section 3.9)
- Microentrepreneurs are more satisfied with informal sources on flexibility of repayment schedule, waiting time from application to disbursement, follow up requirements and convenience of getting the loan. On the other hand, they are more satisfied with formal sources on availability of loan size, interest rate and collateral requirements. (Section 3.10)

[13] Includes only businesses that have reported female owners, and does not consider cases of joint ownership

- As part of the loan process, for more than half of the outstanding loans, enterprises report being asked about contact details of references, value of assets, income and expense seasonality and credit history during the process of obtaining the loan. (Section 3.10)
- Data from the informal lenders survey suggests that there is some formalization of the informal lending structures. For example, informal lenders check for collateral, and make multiple visits to the borrower in the events of delays in repayment. The perception that informal borrowing allows for extreme flexibility at a high cost to clients is thus in question and the practices adopted by informal lenders potentially helps build discipline in borrowers, thereby reducing their perceived riskiness. (Section 3.11)

## 3.3 Credit Usage – Trends

The overall penetration of credit (formal and informal), calculated in terms of number of loans/enterprises in each year, has increased during the period 2014 to 2018. This suggests that while the penetration of formal credit has been on the rise, the reliance on informal credit continues to persist.

Similarly, in terms of the average borrowing per enterprise—calculated as the average loan amount taken out by an enterprise in each year (across the total sample)— the overall amount borrowed has also increased during the same period for both formal and informal loans.

**Figure 6: Number of Formal Loans per Enterprise**

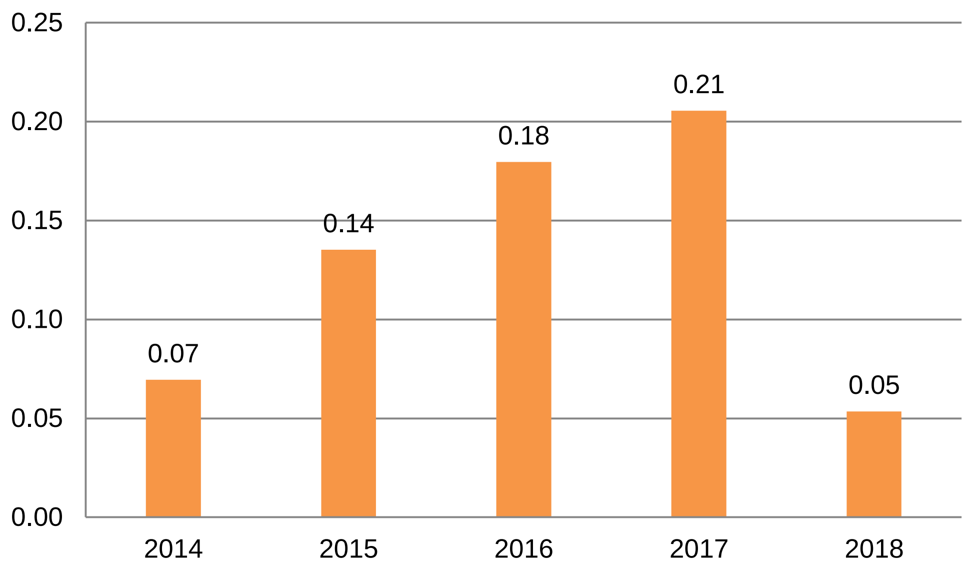


**Figure 7: Number of Informal Loans per Enterprise**

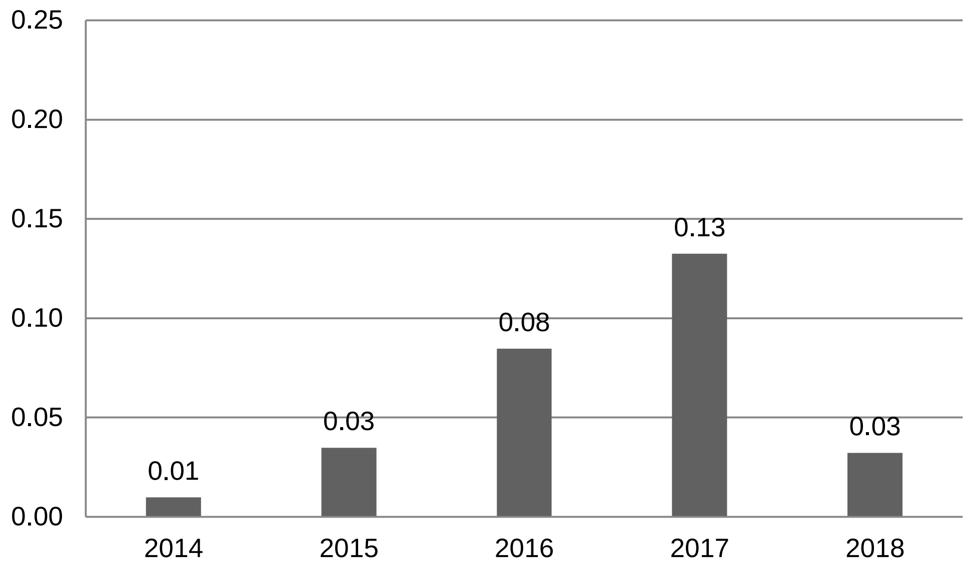
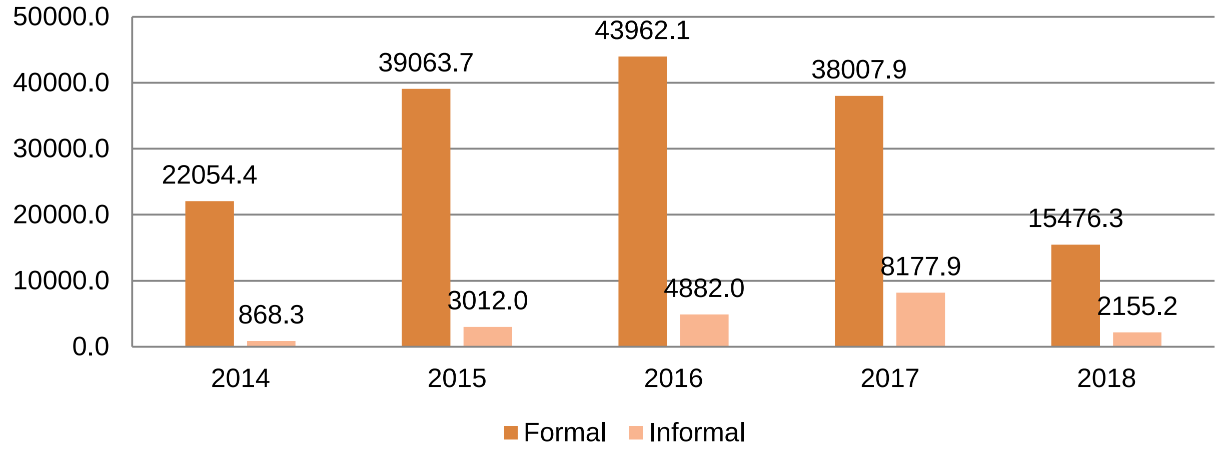
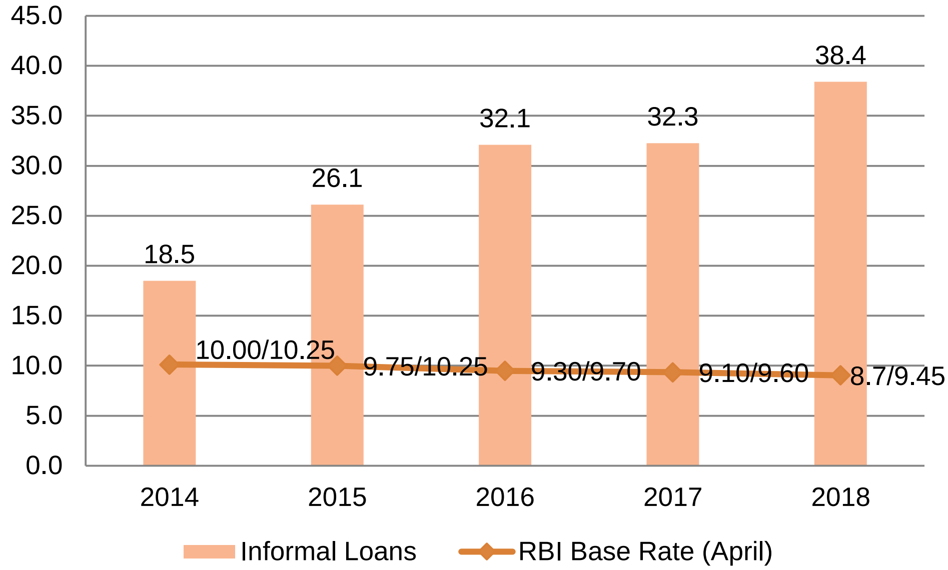



**Figure 8: Average Borrowing per Enterprise, by Year**




Lastly, there is a noticable steady increase in informal interest rates over the period 2014-2018. For the same period, the RBI base rates[xix] have remained fairly steady with an overall marginal reduction.

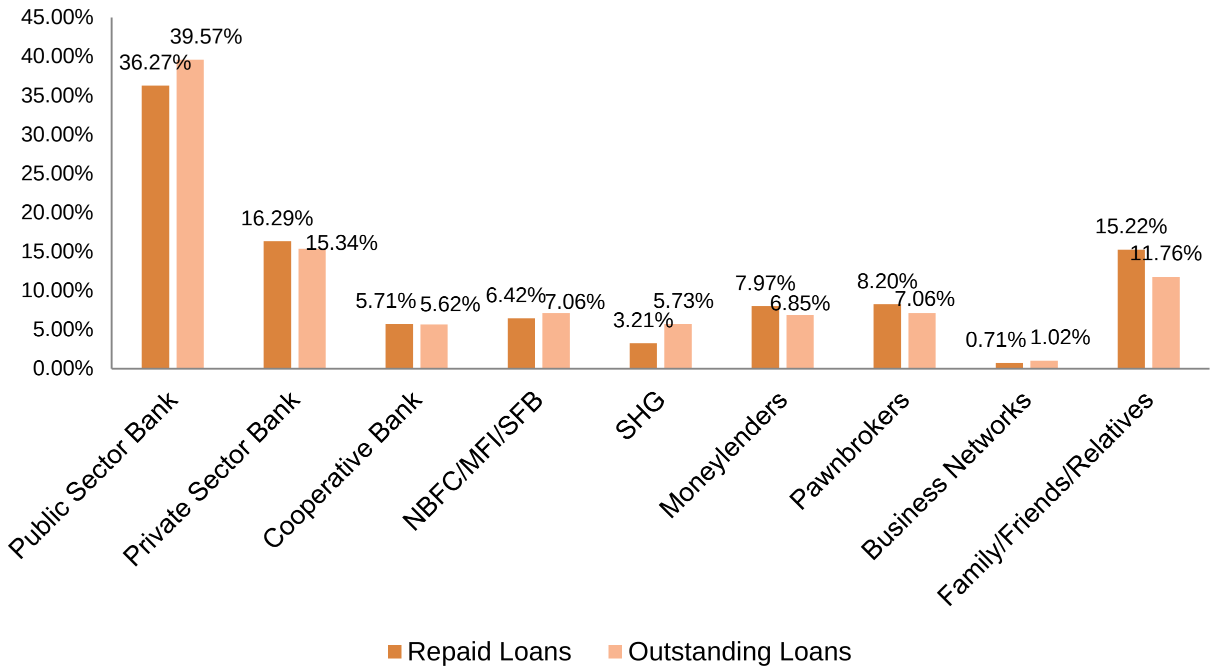
**Figure 9: RBI Base Rate vs Informal Lending Rate**



## 3.4 Sources of Credit

68% of repaid loans and 73%[14] of currently outstanding loans are from formal sources. Among the formal sources, public sector banks seem to be the most common source of credit for the microenterprises in our sample irrespective of whether the loan is repaid or is outstanding. Among the informal sources, family/friends/relatives are the most common source of credit. The following figure highlights the sources of credit prevalent among the microenterprises in our study.

**Figure 10: Source of Credit**




Across the manufacturing, trading and services segments, the study finds that the majority of the repaid and outstanding loans across enterprise types are from formal sources. It is observed that the share of formal borrowings in outstanding loans is higher as compared to previous loans for trading and service enterprises.[15]

[14] The increase in the share of formal sources from repaid to outstanding loans is not representative of an increase in the penetration of formal financial services over time.

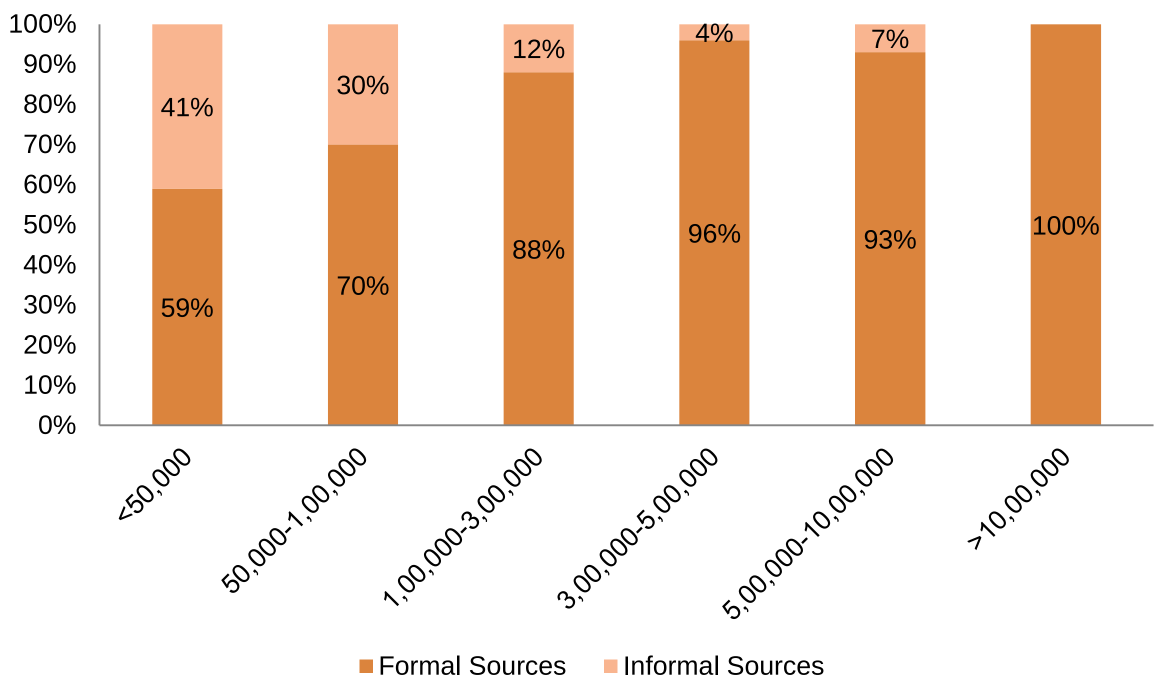
[15] It must be noted that recall also plays a role in the reporting of the repaid loans.

Table 3: Source of Credit, by Type of Enterprise

| | Previous Borrowings | | | Current Outstanding | | |
|---|---|---|---|---|---|---|
| | **Manufacturing** | **Trading** | **Service** | **Manufacturing** | **Trading** | **Service** |
| **Formal credit** | 73% | 67% | 64% | 70% | 72% | 78% |
| **Informal credit** | 27% | 33% | 36% | 30% | 28% | 22% |
| **Total** | **255 (100%)** | **315 (100%)** | **271 (100%)** | **306 (100%)** | **360 (100%)** | **312 (100%)** |

In terms of loan size, it is observed that the largest loans (>10 Lakh), are all from formal sources. A majority (91%) of the informal loans reported are under the INR 3 Lakh loan size category, with the largest market segment for informal lenders appearing to be the less than INR 50,000 loan size category. The following figure shows the share of formal and informal borrowings in currently outstanding loans for each category of loan size.

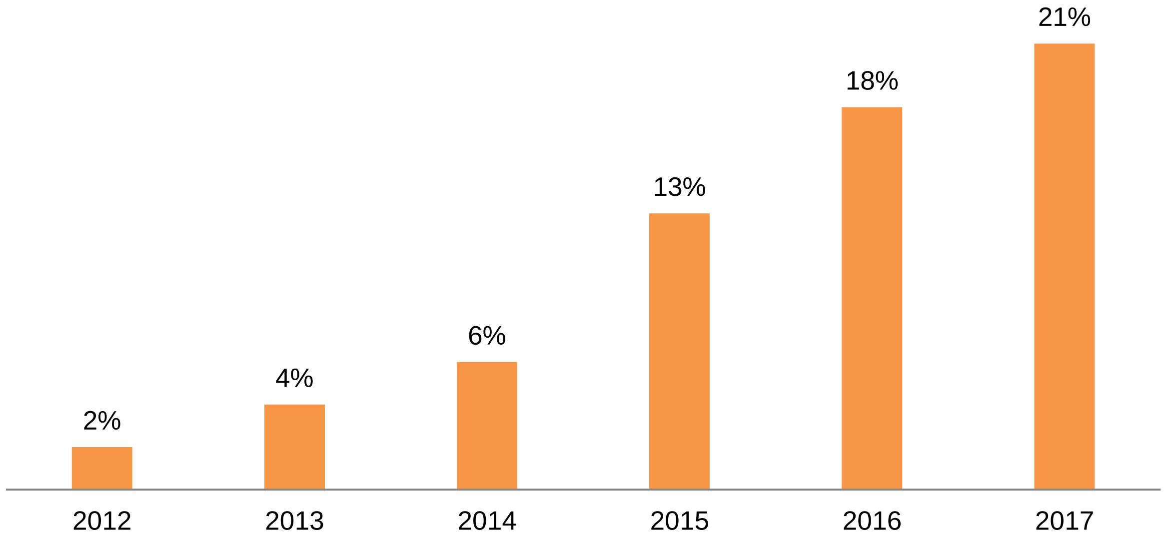
Figure 11: Share of Formal and Informal Borrowings




The share of formal borrowings also increases as asset size increases. While 66% of enterprises with assets worth less than INR 10 lakhsreport having an outstanding loan from formal sources, 85% of the enterprises with asset size of INR 20-<25lakhs report having a loan from formal sources (Table 26).

Overall, the share of the sample reporting a loan from formal sources in each year has increased over the years as can be seen from Figure 12, which shows the loans reported from being taken from a formal source in each year as a percentage of the total sample.[16] However, this is not representative of the overall increase in formal borrowings and penetration of formal sources over time cannot be established as there may be a significant impact of recall bias.

**Figure 12: Percent of Sample that Borrows from Formal Sources**




In addition to credit from formal/informal lenders, an often overlooked aspect is the relationship between microenterprises and their suppliers. The study finds that a large share of enterprises (more than 65%) report having taken good/services on credit from their suppliers. This highlights the potential for this channel to be further leveraged to ease credit constraints that microenterprises face.

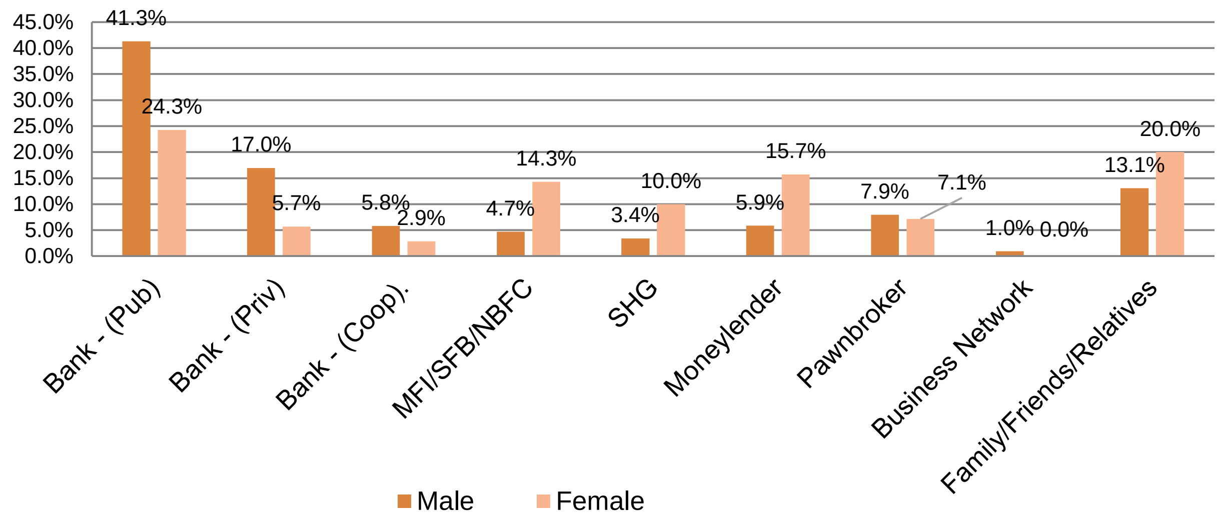
There is considerable variation of this finding across districts, with more than 85% of enterprises in Surguja, Varanasi and Alwar reporting having taken credit from suppliers while only 35% of enterprises in Bishnupur do the same. Additionaly, of the total enterprises in the sample that report having taken credit from their suppliers, 80% report having an outstanding loan from a formal source. On the other hand, only 71% of the enterprises that have never taken credit from suppliers report an outstanding loan from a formal source.

Suppliers can be considered as an important channel for information exchange. Taking goods/services on credit from them is indicative of a trustworthy and strong relationship between the enterprise and its supplier which may be benefiting the entrepreneurs in terms of information sharing and awareness generation on various government schemes and measures available to ease access to formal credit for microenterprises.

[16] The numbers in Figure 12 are number of loans from formal sources in each year divided by the total sample (1737).

Findings suggest that female-owned businesses[17] appear to have less access and usage of bank credit than male-owned businesses. While 41% of all the loans reported by male-owned businesses are from public banks, only around 24% of all the loan reported by female-owned businesses are from public banks. A similar disparity exists for loans taken from both private banks and cooperatives. On the other hand, of all the loans reported by microenterprises having female owners, 14% are from NBFCs, and 15% are from moneylenders, while only 24.3% of the female-owned businesses in our sample avail credit from banks. Thus the women-owned businesses in our sample seem to rely more on NBFCs/MFIS/SFBs and informal sources for their credit needs than the male-owned businesses in the sample. However, it must be noted that the overall proportion of female business owners in the sample remains low.

Figure 13: Gender vs Borrowing Source




**Awareness: Features of Financial Products**

Enterprises were asked questions on various financial product offerings to test their awareness of the product terms and understanding of related features of these offerings.[18]

Less than 50% of the 1737 business owners surveyed are aware of the various Business Development Services offered to MSMEs, as reflected in Table 4. The observed mismatch between the greater number of respondents availing formal borrowings and the fewer number of respondents reporting awareness of various product offerings in the sample is indicative of a lack of familiarity on features of these products. In other words, it is possible that microenterprises are utilizing these products, without full knowledge of the specific features that differentiate such products. There is immense potential to improve the product awareness, specifically knowledge of the differentiated features of each of these services among microentrepreneurs. This could be instrumental in easing the barriers to accessing formal credit.

[17] There are 81 female-owned businesses in the sample.
[18] The product offerings were asked in local languages and local colloquial terms to avoid confusion in understanding; enterprise owners were tested on their awareness of the products and their related features.

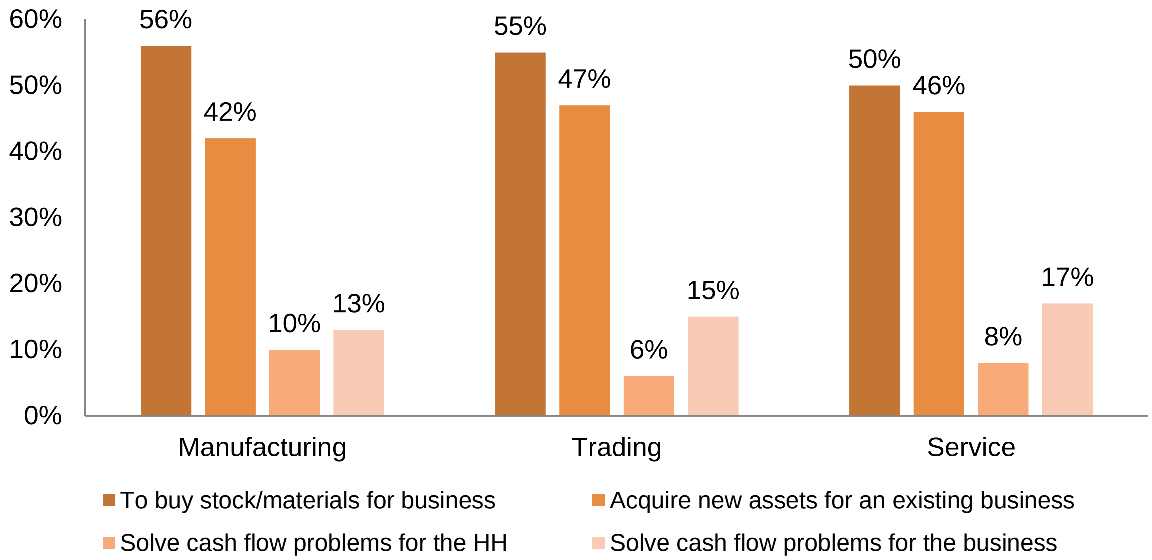
**Table 4: Awareness: Features of Financial Products**

| Awareness of Financial Products for MSME | Have Heard/Understood Features | Have not heard only |
|---|---|---|
| Working Capital Loans | 46% | 54% |
| Term Loans | 46% | 54% |
| Bank Overdraft Facility | 46% | 54% |
| Unsecured Business Loans from MFIs | 41% | 59% |

## 3.5 Purpose of Borrowing and Credit Preferences

The two most commonly reported borrowing purposes, irrespective of whether the loan is repaid or is currently outstanding, are to buy materials/stocks for business and to acquire new assets for an existing business. The following figure highlights the percentage of outstanding loans for which enterprises report taking the loan for each purpose disaggregated by the type of enterprise.

**Figure 14: Purpose of Loan**




There is some variation in the share of formal versus informal sources across districts. In Alwar and Bishnupur, a majority of the repaid loans are from informal sources while in Bidar the majority of both repaid and outstanding loans are from informal sources.

It is important to understand the manner in which microenterprises vary their choice of credit source based on various different needs and requirements. A more thorough understanding of these linkages can have significant implications for product design and marketing. The findings suggest that the important factors involved in determining the source of credit at any given point in time are quantum of credit required, time frame for repayment and convenience in getting the loan. The study also finds that business owners report a higher preference for formal sources—namely public and private sector banks—when it comes to buying input/supply for their businesses. Friends, family, and relatives are the second most preferred source of financing such requirements. For longer-term requirements such as buying high cost machinery or land, business owners report a preference for banks with greater availability of loan sizes and lower interest rate charges. However, in cases of urgent credit requirements for business, there is a significant preference for informal sources of credit with 50% citing family/friends/relatives and 20% citing pawnbrokers as the most preferred sources for borrowing in such cases.

Table 5: Preference for Lender by Nature of Loan Requirement

| Type of Lender | Buying Input/Stock/Supply for Business | Buying High Cost Machinery, Vehicle or other assets | Buying Land/Building for Business | Urgent Loan Requirement for Business |
|---|---|---|---|---|
| Bank - Public Sector | 55% | 61% | 64% | 36% |
| Bank - Private Sector | 27% | 33% | 30% | 19% |
| Cooperative Bank | 9% | 8% | 8% | 7% |
| MFI/SFB/NBFC | 9% | 10% | 7% | 7% |
| SHG | 4% | 3% | 3% | 5% |
| Moneylender/Financier | 11% | 9% | 8% | 13% |
| Pawnbroker | 11% | 9% | 10% | 20% |
| Business Network | 6% | 4% | 4% | 6% |
| Family/Friends/Relatives | 34% | 28% | 29% | 50% |

## 3.6 Credit Features

**Repaid Loans**

The average size of borrowing for the loans that have been repaid is INR 1,87,540 with majority of the loans (42%) being of size less than INR 50,000. 86% of repaid loans are reported to have been repaid regularly with either fixed or varying instalment amounts and of those repaying regularly, most report paying monthly instalments. For 14% of repaid loans, enterprises report having missed a payment or made a partial payment with most common consequence of such missed payments being late or penalty fees or no action taken. In terms of other features of the repaid loans, the median annual interest rate charged by formal sources is 11% and that by informal sources is 24%. The features of repaid loans like interest rate, duration of loan, turnaround time and additional expenses incurred by source of credit is presented in detail in

Table 31.

**Outstanding Loans**

The average quantum of borrowing for loans that are currently outstanding is INR 2,45,128. Irrespective of the type of enterprise, a majority of the outstanding loans in the sample are of again less than INR 50,000. However, a majority of the loans that are less than INR 50,000 have been taken by service enterprises and a majority of the loans of higher ticket size (greater than INR 10,00,000) have been taken by manufacturing enterprises, alluding to the nature of manufacturing enterprises being more capital intensive (refer Table 24 in appendix).

Enterprises with lower asset size demand a lower quantum of loan as compared to larger enterprises. While most of the enterprises with assets worth less than INR 10 lakhsdemand a loan of less than INR 50,000, most of the enterprises with asset size between INR 20 lakhs-<25 lakhs demand a loan of size INR 1,00,000-3,00,000. The following table highlights the quantum of outstanding loan demanded by enterprises in each asset category.

Table 6: Quantum of Loan, by Asset Size

| | Below 10 lakhs | 10- 15 lakhs | 15-20 lakhs | <25 lakhs (>20 lakhs) |
|---|---|---|---|---|
| **Quantum of Loan** | | | | |
| <50,000 | 54% | 20% | 14% | 23% |
| 50,000-1,00,000 | 17% | 21% | 20% | 13% |
| 1,00,000-3,00,000 | 17% | 28% | 34% | 30% |
| 3,00,000-5,00,000 | 2% | 4% | 5% | 4% |
| 5,00,000-10,00,000 | 8% | 17% | 18% | 17% |
| >10,00,000 | 2% | 10% | 9% | 13% |
| **Total** | **575 (100%)** | **208 (100%)** | **79 (100%)** | **60 (100%)** |

86% of outstanding loans are reported to be repaid regularly with either fixed or varying instalment amounts and of those repaying regularly, most report paying monthly instalments. For 11% of outstanding loans, enterprises report having missed a payment or made a partial payment with most common consequence of such missed payments being late or penalty fees or no action taken.

Looking at other features of currently outstanding loans, the average interest rate charged by formal sources is about 18% (median, 12%) and that by informal sources is about 34% (median, 24%) while the average duration of loans from formal sources is 36 months as compared to an average duration of 16 months for outstanding loans borrowed from informal sources. Irrespective of the source of credit, for majority of the outstanding loans, enterprises report having incurred additional expenses such as processing fees, membership fees, transport costs and commission. The average amount of such additional expenses incurred in order to obtain a loan from formal sources is INR 4,221 and that in case of informal sources is INR 271.

The table below shows the lending characteristics of each type of lending source for outstanding loans. These details on the credit features are extremely useful in understanding the manner in which different kinds of formal/informal sources cater to different segments of microenterprises. While the average borrowing from a bank is in the INR 3 Lakh to INR 4 Lakh range, NBFCs/MFIs/SFBs, along with SHGs and informal lenders all cater to the under INR 1 Lakh category, in terms of loan size. This suggests that there could be a potential gap in supply for loans in the INR 1 Lakh – 3 Lakh category.

Table 7: Loan Characteristics

| **Sources** | **Average Borrowings (INR)** | **Loan Duration (Months)** | | **Interest Rate (Annualized)** | | **Average Additional Expenses (INR)** | **TAT (Majority MSMEs)** |
|---|---|---|---|---|---|---|---|
| **Formal Sources** | | **Median** | **Mean** | **Median** | **Mean** | | |
| Public Sector Bank | 3,41,247 | **36** | **41** | 12% | 16% | 4,895 | **30-60 days** |
| Private Sector Bank | 3,59,349 | 36 | 39 | 13% | 17% | **5,207** | <15 days |
| Cooperative Bank | 4,20,461 | 24 | 28 | 13% | 14% | 4,196 | <15 days |
| NBFC/MFI/SFB | 91,378 | 12 | 18 | 18% | 24% | 624 | <15 days |
| SHG | 31,203 | 12 | 15 | 24% | 25% | 1,140 | <15 days |
| **Informal Sources** | | | | | | | |
| Moneylenders | 54,045 | 12 | 14 | 36% | 37% | 256 | <15 days |
| Pawnbrokers | 95,043 | 12 | 18 | 36% | 34% | 117 | <15 days |
| Business Networks | 90,500 | 24 | 20 | 24% | 21% | 360 | <15 days |
| Family/Friends | 70,907 | 12 | 17 | 24% | 32% | 378 | <15 days |

## 3.7 Credit Mismatch

The study calculates the credit mismatch for all loans as the difference between the loan amount applied for and the loan amount that was finally disbursed. For already repaid loans, the average amount applied for is INR 2,02,935 whereas the average amount disbursed is INR 1,87,540, amounting to an average mismatch of INR 15,395 or 8%. The greatest mismatch as percentage of average amount of loan applied for is observed for trading enterprises and the least for service enterprises (Table 27).

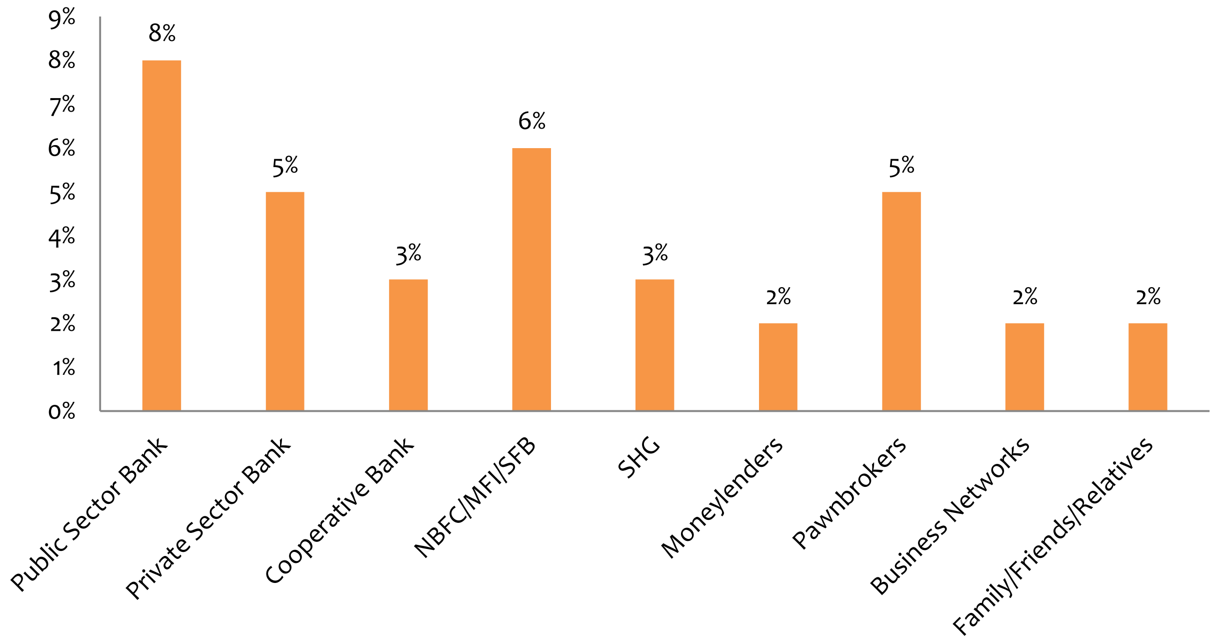
For currently outstanding loans, the average amount applied for is INR 2,62,167 whereas the average amount actually disbursed is INR 2,45,128, amounting to an average mismatch of INR 17,039. This 6% mismatch is lower for outstanding loans as compared to repaid loans. For currently outstanding loans, the greatest mismatch is observed for manufacturing enterprises while the least is observed for service enterprises (Table 8).

**Table 8: Credit Mismatch, by Type of Enterprise**

| Type of Enterprise | Number of Observations | Average Amount Applied for (INR) | Average Amount Disbursed (INR) | Average Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Manufacturing | 302 | 283,255 | 257,830 | 25,425 | 9% |
| Trading | 330 | 293,295 | 277,105 | 16,190 | 6% |
| Services | 290 | 204,785 | 195,513 | 9,272 | 5% |
| **Total** | **922** | **262,167** | **245,128** | **17,039** | **6%** |

There is considerable variation in the average mismatch between the amount applied for and the amount received as loan that is currently outstanding across sources of credit. The largest mismatch as a percentage of loan amount applied for is among outstanding loans taken from public sector banks, while the smallest mismatch is for loans taken from moneylenders, pawnbrokers and family/friends/relatives. The following figure highlights the average mismatch faced by borrowers of each source of credit.

Figure 15: Credit Mismatch, by Source




Overall, upon looking at the average mismatch between desired and actual loan amount for loans taken by enterprises of various asset sizes, the trend that emerges is that as the size of assets increase the mismatch as a percentage of the requested amount reduces. For currently outstanding loans taken by enterprises with assets worth less than INR 10 lakhs, the mismatch is largest. For currently outstanding loans by enterprises with asset size between INR 20-<25lakhs this mismatch is negligible (Table 9) with no variation across the types of enterprise.

Table 9: Credit Mismatch, by Asset Size

| Asset Size | Number of Observations | Average Amount Applied for (INR) | Average Amount Disbursed (INR) | Average Mismatch (INR) | Mismatch as %age of Average Amount Applied for |
|---|---|---|---|---|---|
| Below 10 Lakhs | 575 | 1,57,911 | 1,39,165 | 18,746 | 12% |
| 10-15 Lakhs | 208 | 3,87,995 | 3,68,711 | 19,284 | 5% |
| 15-20 Lakhs | 79 | 3,55,000 | 3,43,797 | 11,203 | 3% |
| <25 Lakhs (>20 Lakhs) | 60 | 7,02,850 | 7,02,266 | 584 | 1% |
| **Total** | **922** | **2,62,167** | **2,45,128** | **17,039** | **6%** |

The average mismatch as percentage of the average amount applied as loan is the largest for outstanding loans taken by enterprises that are in the 6-10 and 11-15 years categories of age (Table 36). This mismatch is the largest for the middle categories of loan size (INR 3,00,000-5,00,000) and is the smallest for the smallest category of loan size (less than INR 50,000, Table 37).

The largest mismatch is seen in Bidar while enterprises in Shivaganga face the least mismatch for loans that are currently outstanding (Table 30). One explanation of this finding is that Bidar has the highest share of enterprises with assets worth less than INR 10,00,000 as compared to other districts covered under the study whereas majority of the enterprises with asset size between INR 20,00,000-<25,00,000 in the sample are from Shivaganga.

## 3.8 Loan Process and Customer Satisfaction

### 3.8.1 Experience with Banks

With banks being a preferred lender across various types of loan requirements, business owners across 10 districts, were asked a series of questions to assess their experience in dealing with banks.

Broadly, our data suggests that a majority of the sample reports satisfaction with various aspects of their interaction with banks. Over 56% of the respondents report feeling satisfied that bank staff take adequate effort in explaining how various banking processes work. 51% are in agreement that banks offer products and services suitable for their business needs. Furthermore, 68% of respondents also report that staff at banks have good knowledge of products and services on offer, while 78% agree that banks provided good services.

However, our data also highlights key areas of concern regarding the interaction with banks. Nearly 55% of business owners feel that their banks charge very high interest rates. 62% of the business owners agree that the queues in the bank are extremely long, thereby making the interactions very time consuming. In addition to this, 53% of business owners surveyed indicate that their bank takes very long to process their requests; this may be indicative of the preference for informal sources for shorter duration credit requirements or urgent loans. 48% of business owners also feel that banks are only interested in big businesses and do not care much about the needs of microenterprises.

Despite the aforementioned shortcomings, almost 89% of those surveyed reaffirm their trust in banks.

### 3.8.2 Satisfaction with Credit Processes

The study analysed the preferences for sources of credit across different type of borrowing requirements. The study further aggregates the sources of credit into formal sources, i.e. Public Sector Banks, Private Sector Banks, Microfinance Institutions/Small Finance Banks/Non-Banking Financial Institutions, Self Help Groups and Cooperative Banks; and informal sources, i.e. Moneylenders/Pawnbrokers, Friends/Family/Relatives and Business Networks. To understand the reasons for these preferences business owners were asked to rate their level of satisfaction with various sources of credit on different aspects of the process of procuring credit. This is summarized in Figure 16.

a. **Availability of Loan Size Required by Business**
   Business owners across the 10 study districts are more satisfied with formal sources regarding availability of loan sizes required by the business. Within formal sources, public sector and private sector banks were most satisfactory.

b. **Interest Rates Charged by Source**
   Business owners were more satisfied overall with formal sources in terms of interest rates charged on loans. Again, public sector banks were reported as having the highest

level of satisfaction among business owners surveyed, while there was significant dissatisfaction with informal money lenders on this aspect.

c. **Flexibility of Repayment Schedule**
Business owners reported having greater satisfaction with informal sources on the aspect of having flexibility in their loan repayment schedule. Within formal sources, public banks were reported as being the least satisfactory and inflexible on repayment schedule. Notably, respondents in the district of Alwar had the highest satisfaction with Self-Help Groups as a lending source on this parameter.

d. **Documents Required to get Loans**
A significantly higher proportion of business owners felt more satisfied with informal sources in terms of the need for documentation required in procuring credit. Within formal sources, business owners were least satisfied with public and private sector banks respectively while they were most satisfied with Self-Help Groups.

e. **Collateral Required**
Respondents are more satisfied with formal sources in terms of collateral requirement for procuring loans. MFIs were reported as requiring the least amount of collateral to obtain a loan.

f. **Waiting Time to get Loan**
Business owners reported being more satisfied with informal sources in terms of the waiting time required to get loans, making these sources more attractive for procuring loans required during some emergency. District-wise, respondents in Varanasi had greater satisfaction with MFIs that may be explained in part by the high penetration of MFIs in the state of Uttar Pradesh.

g. **Follow Up Required for getting Loans**
One of the factors that adds to the waiting time in getting loans is the need to follow up regularly with the credit source. The business owners surveyed expressed greater satisfaction with informal sources on this aspect.

h. **Overall Ease/Convenience of getting Loan**
A higher proportion of business owners expressed greater satisfaction for informal sources in terms of the overall ease and convenience of getting loan. Notably, the southern districts of Thrissur and Sivaganga reported higher satisfaction with formal sources, mainly the convenience experienced with public and private sector banks.

Figure 16: Satisfaction in Aspects of Loan Process

| Aspects of Loan Process | Formal Sources | Informal Sources |
|---|---|---|
| Availability of Required Loan Size | √ | |
| Interest Rates Charged | √ | |
| Flexibility of Repayment Schedule | | √ |
| Documents Requirements | | √ |
| Collateral Requirements | √ | |
| Waiting Time (between Application and Disbursement) | | √ |
| Follow Up Required by Applicant | | √ |
| Overall Ease/Convenience of Process | | √ |

As part of the loan application process for more than half of the outstanding loans, enterprises report being asked about contact details of references, value of assets, income and expense seasonality and credit history. For 91% and 97% of outstanding loans borrowed from formal and informal sources respectively, enterprises report the loan process being easy or with hardly any problems. 73% of current formal borrowers and 69% of current informal borrowers report they would borrow from their current lender again. Business owners report satisfaction with informal lenders in terms of turnaround time, flexibility of repayment schedule and overall convenience of getting the loan despite the higher average interest rates they charge. It may be due to the convenient loan processes and risk assessment measures adopted by informal lenders that there is a high share of informal borrowers reporting that they would likely borrow from their current lender again. Such factors are important in explaining the persistence of informal credit for microenterprises.

**Table 10: Loan process and customer satisfaction**

| | **All** | **Formal lender** | **Informal lender** |
|---|---|---|---|
| Contact details of references asked (%) | 54% | 61% | 34% |
| Value of assets asked (%) | 59% | 69% | 32% |
| Credit history asked (%) | 53% | 62% | 27% |
| Income and expense seasonality asked (%) | 56% | 64% | 33% |
| Likely to borrow again from current lender (%) | 72% | 73% | 69% |
| *Number of Observations* | *960* | *711* | *249* |

## 3.9 Informal Lending: Main Findings from the Supply Side

- There is some evidence of adoption of formal mechanisms in the disbursement and repayment structures by informal lenders in these 10 districts.
    - In all states, a majority of lenders report screening clients before lending (mainly by inspecting collateral, vetting through a guarantor and examining the clients' credit history). In half the states, lenders report collecting collateral (formal and/or informal) from their clients.
    - However, although checking for and inspecting collateral forms a large part of the screening process, actual collection of collateral at the time of disbursement is much lower.
    - As with formal institutions such as MFIs and NBFCs, late repayment results in multiple visits from the lender.
    - Additional methods of ensuring collection include keeping the collateral in custody and charging a penalty to the clients.
    - The perception that informal borrowing allows for extreme flexibility at a high cost to the clients is thus in question and the findings from this study suggest that there is some formalization of the informal lending structure that potentially helps build discipline in borrowers, thereby reducing their perceived riskiness.

- Although emergency clients do form a significant proportion of the client base, a majority report their main customers to be male business owners in the same town/area. In terms of repayment structures, a majority of lenders report collecting monthly instalments, with few allowing ad-hoc collections and more than half the lenders traveling to the client to collect repayments. These also mirror some formal processes.

- In terms of the changing lending landscape in the past 2 years, informal lenders across the states report increased competition from MFIs than from banks.
    - However, more than half the lenders interviewed believe there has been no change in the competition they face from the expansion of formal institutions.
    - Despite screening and repayment collection procedures there are certain challenges that these lenders face; mainly, the difficult due diligence process before lending, and the number of defaulters.
    - As with formal lenders, there are certain segments that fall out of the ambit of informal lending; these are mainly extremely low income households with no or small household-run businesses.
    - Thrissur and Bishnupur are the only districts that report both an increase in competition due to high MFI penetration/expansion in the past two years as well as an increase in the competition from informal lenders.

- Although nearly all lenders report using their own savings, a smaller (yet significant proportion) report rely on formal and—notably—informal borrowings to fund lending. The existing literature on credit behaviour for these segments concentrates on cross-borrowings on the demand side and responsible lending on the supply side. There is a gap in understanding the channel of cross-lending on the informal supply side.

- The main challenge faced by most informal lenders is that of a difficult due diligence process to adequately ensure client repayment capacity and discipline. Formal lending institutions with much stricter processes in place still face similar vulnerabilities.

A summary of the key data points can be found in Table 38.

## 3.10 Seasonality in Business

Seasonality refers to periodic fluctuations in certain business areas such as demand of goods, and supply availability that affect cash-flows and result in irregularity of income[19]. Enterprise owners that understand the seasonality of their business can time inventories, staffing and other decisions to coincide with the expected seasonality of the associated activities that could help in better cash flow management. Seasonality varies by sector, type of economic activity, and the capacity to manage seasonality varies with years in business, asset size, access to credit and so on. Thus, it is imperative to understand these variations further and identify the mechanisms that can be set up to build resilience within enterprises.

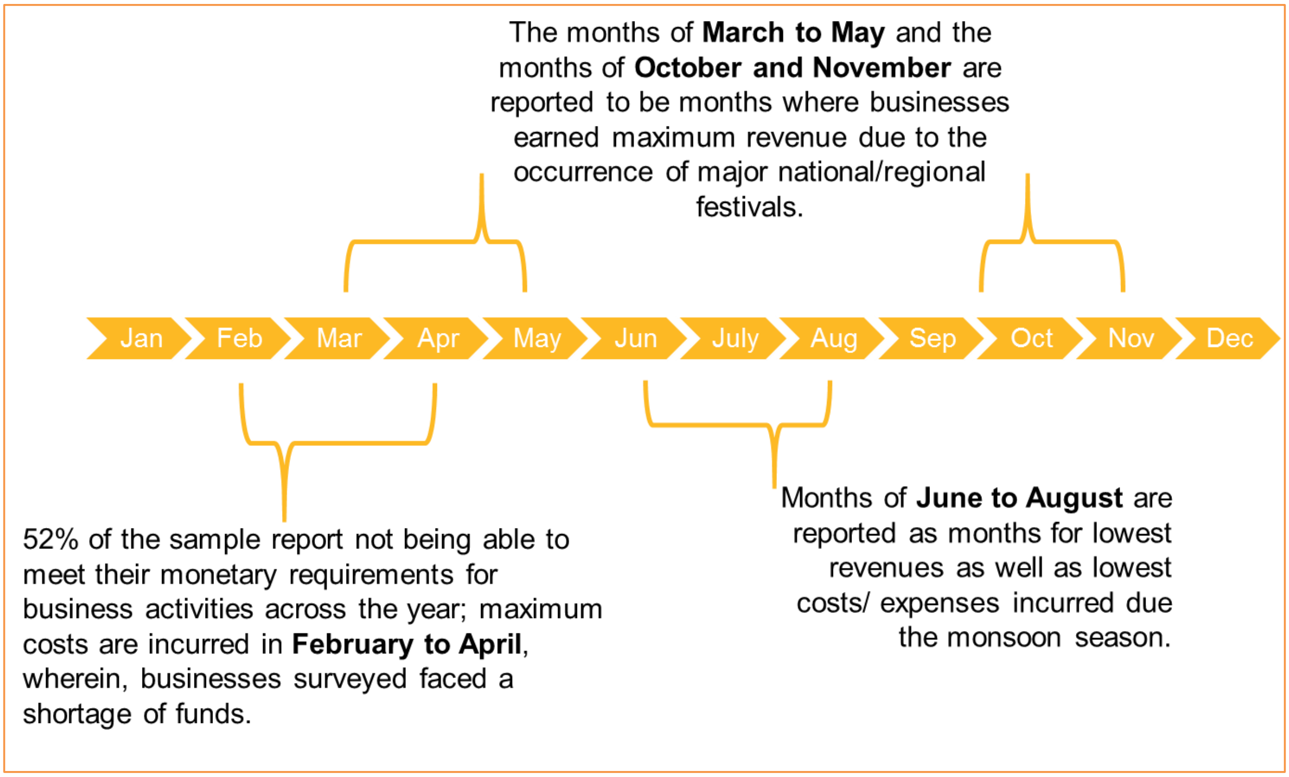
### 3.10.1 Seasonality in Cash Flows

Nearly 70% of the business owners feel that they experience seasonality in terms of fluctuations in the revenues and costs incurred from their business enterprise across various months of the calendar year. The period between March and May and the months of October and November are months wherein they generate higher revenues with a majority of respondents citing the occurrence of various national festivals such as Diwali, regional festivals in the states of Manipur, Tamil Nadu and Kerala and the reopening of schools, as major reasons for this increase in sales. Similarly, enterprises report the period between June and August as the months wherein they experience lower revenues. The absence of any major religious festivals and the monsoon season were cited by most respondents as reasons for this decline.

In terms of cost incurred in running the business, seasonal differences mirror those of revenues with March to May cited as months with higher costs incurred during the summer season while June to August were months where costs were lower for these enterprises. Figure 17, below, presents an overview of the seasonality in cash flows across the year as reported by enterprises.

[19] Seasonality can be observed in a variety of predictable changes in costs or sales as it relates to the regular transition through the times of year.

Figure 17: Seasonality in Business




### 3.10.2 Ability to Meet Seasonal Cash Flow Volatilities

The amount of working capital that a business must maintain is also affected by seasonality. During periods of peak productivity, the amount of working capital that a business maintains will generally have to be higher to cover increased operating expenses. Inability to manage these seasonal fluctuations can result in temporary monetary shortages in running businesses. Nearly 52% of all business owners indicate that they face cash shortages across certain periods of the year. **February** to **April** are cited as months where most businesses faced a shortage of money. During these months, over 60% of respondents resort to borrowing from informal sources to tide of cash shortages, this effect is driven by enterprises with smaller asset sizes (as below). Restrictions on the amount of working capital available also makes the enterprise risk-averse and limit the enterprises' capacity to invest.

Within districts, Sivaganga – Tamil Nadu (12%) and Thrissur – Kerala (30%) report the least number of businesses that face short-term seasonal cash shortages while Chandrapur – Maharashtra and Varanasi – Uttar Pradesh report the highest number of businesses facing seasonal cash flow volatility.

Disaggregating the inability of businesses to meet seasonal monetary requirements across type of business activities and estimated asset size of business, highlights important points. There is no significant variation in the proportion businesses experiencing seasonal cash shortages across manufacturing, service and trading. Enterprises with larger business assets facing lesser short-term cash flow volatilities whereas smaller asset classes face higher seasonal volatility. Nearly 54% of businesses having an asset size below INR 10 lakhs report being unable to meet monetary requirement across periods of the year. Only 24% of businesses, with asset size greater than INR 20 lakhs and less than INR 25 lakhs, report facing seasonal cash shortages. These larger enterprises also rely on more formal sources of borrowing to fund any shortages and are better able to meet their seasonal cash requirements as compared to enterprises in smaller asset classes.

**Table 11: Inability to Meet Seasonal Monetary Requirements by Estimated Asset Size**

| | < 10 Lakhs | 10-15 lakhs | 15-20 lakhs | <25 lakhs (>20 lakhs) | Total |
|---|---|---|---|---|---|
| **Manufacturing** | 53% | 50% | 52% | 24% | **50%** |
| **Service** | 50% | 50% | 51% | 24% | **48%** |
| **Trade** | 59% | 57% | 43% | 21% | **55%** |
| **Total** | **54%** | **53%** | **49%** | **24%** | **52%** |

### 3.10.3 Financial Management Practices

Depending on the type of business activity, there are many strategies that business owners can implement to cope with seasonal fluctuations and maintain a positive cash flow. A common strategy that all businesses will benefit from is maintaining a cash flow forecast in the form of a budget. To assess financial management practices, respondents were asked questions to understand the budgetary[20] practices that they follow.

948 (55%) of businesses report maintaining a written budget, 281 (16%) of enterprises report keeping mental budgets while 508 (29%) of enterprises report that they did not keep any form of budget to track their cash flows or inventory. Across the type of business activity, 61% of trading businesses keep a written budget which is higher than the other sectors – this could be indicative of the larger frequency of inflows and outflows that occur for trading enterprises.

Respondents were asked follow up questions to understand practices followed by their businesses in terms of matching their budgets to actual inflows and outflows and matching predicted stock flows to actual. 54% of enterprises that maintain written budgets report matching their budget on a monthly basis while 29% of businesses report matching their budget on a weekly basis.

[20] By budgeting we refer to an anticipation/ prediction of cash flows in the future as well as recording of inventory and book-keeping.

Table 12: Budgetary Practices by Type of Business Activity

| | Written Budget | | Mental Budget | | No Budget | | Total | |
|---|---|---|---|---|---|---|---|---|
| | N | % | N | % | N | % | N | % |
| **Manufacturing** | 283 | 50% | 94 | 17% | 185 | 33% | 562 | 100% |
| **Service** | 287 | 52% | 91 | 16% | 178 | 32% | 556 | 100% |
| **Trade** | 378 | 61% | 96 | 16% | 145 | 23% | 619 | 100% |
| **Total** | 948 | 55% | 281 | 16% | 508 | 29% | 1737 | 100% |

On disaggregation of businesses based on asset size, the data indicates that larger businesses tend to keep budgets more as compared to businesses with smaller asset sizes. 83% of businesses with asset size between INR 20 Lakhs and less than INR 25 Lakhs maintain written budgets whereas 45% of businesses with assets less than INR 10 Lakhs follow this practice. With smaller businesses facing significantly higher monetary inadequacies during seasonal variations, a lack of sound financial management practices further adds on to the burden of smaller businesses in tiding over seasonal cash flow volatilities. The inability to effectively manage seasonal cash flows acts as an impediment in establishing the enterprise's creditworthiness among formal sources of borrowing such as banks. This results in driving them to borrow more from informal sources as compared to bigger businesses that follow better financial management practices.

Table 13: Budgetary Practices by Estimated Size of Business Assets

| | Written Budget | | Mental Budget | | No Budget | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Asset Size** | N | % | N | % | N | % | N | % |
| **< 10 Lakhs** | 518 | 45% | 209 | 18% | 422 | 37% | 1149 | 100% |
| **10 - 15 Lakhs** | 235 | 69% | 48 | 14% | 59 | 17% | 342 | 100% |
| **15 - 20 Lakhs** | 110 | 76% | 14 | 10% | 20 | 14% | 144 | 100% |
| **< 25 Lakhs (> 20 lakhs)** | 85 | 83% | 10 | 10% | 7 | 7% | 102 | 100% |
| **Total** | **948** | **55%** | **281** | **16%** | **508** | **29%** | **1737** | **100%** |

Working capital that a business requires also varies due to seasonal fluctuations. During periods of higher productivity, the amount of working capital that a business maintains will generally have to be higher to cover increased operating expenses during these periods. With smaller businesses facing a greater effect of seasonality in terms of their inability to meet short-term monetary requirements, coupled with a lack of sound financial management practices, leads to increased reliance on informal sources of borrowing as compared to larger businesses. These factors result in the burden of volatility falling disproportionately on smaller businesses. The design of current credit structures further aggravates this gap between small and larger enterprises in terms of the access to formal sources of credit. A detailed analysis of the credit landscape has been discussed in later section within this report.

## 3.11 Enterprise Ecosystem

Enterprises cannot function in isolation and are part of a highly networked ecosystem. Networking through business relation can generate significant value for an enterprise. Business networks are important conduits of information, with these networks adding value to an enterprise by facilitating the transaction of services including financial intermediation. It is therefore important to understand the profile of business networks that microenterprises interact with and the benefits they gain from these informational exchanges. In the context of the enterprise ecosystem, it is also of relevance to understand the performance of these enterprises and the challenges faced by them in terms access to credit from different sources to facilitate business growth.

### 3.11.1 Business Relations

**Membership in Business Associations**

A business association provides its members with opportunities to network and share information and resources. While some businesses that belong to an association are likely to be competitors, they still share certain needs and preferences. The business owners were asked questions on their interactions with business associations to understand the effects of association of this nature in improving access to credit. In our sample, 38% of entrepreneurs reported being part of a business association, mostly business and trade unions[21]. Over 75% of business owners in the southern districts of Thrissur – Kerala and Sivaganga – Tamil Nadu report being part of business associations – this is much higher than the average of 38% for the remaining districts in the sample. For enterprise owners who are a part of business associations, the major benefits are accrued from the following sources:

1. Access to market information exchange on prices, buyers, suppliers. (83%)
2. Access to information on market trends and competition, regulation and policy information. (34%)
3. Financial information (sources of loan, how to/help with access to services) is obtained through this channel. (22%)

Multiple benefits accrue from being part of business associations. They are extremely effective channels for informational exchanges and awareness generation in terms of access to sources of credit and features of financial product offerings. There is a case for encouraging business owners to network through such business associations. By strengthening such networks, business owners can effectively leverage them a channel for financial information exchange as well as for improving the acess to credit .

[21] We included Business/ Trade Unions, Business Cooperatives and Informal Groups/ Collectives as the major categories of business associations for the purposes of this survey.

## Business Supplier Profile

All business owners were asked questions about the suppliers for their business enterprise to understand the profile and proximity of their supplier networks. Like business associations, business supplier networks also have the potential to be conduits of informational exchange and well as an alternate channel of borrowing for microenterprises who engage with them. Business Suppliers[22] by the sector of enterprise have been summarized in Table 14. Almost 50% of enterprises engaging in manufacturing, service and trade have business suppliers who large traders within the same area/ town as the business establishment with small traders within the area/ town being the next most prominent type of supplier and is indicative of greater proximity to their supplier sources. Over 32% of manufacturing and service enterprises also reported large traders outside their town/ area as being suppliers for their businesses while 44% of trade enterprises reporting the same.

**Table 14: Business Supplier by Type of Enterprise**

| Type of Business Supplier | Manufacturing | Services | Trade |
|---|---|---|---|
| Individuals /households /farmers | 15% | 13% | 11% |
| Small traders in the area/town | 38% | 38% | 27% |
| Large traders in the area/town | 53% | 49% | 52% |
| Small traders outside the area/town | 21% | 19% | 18% |
| Large traders outside the area/town | 35% | 32% | 44% |
| Small enterprises other than traders | 7% | 6% | 7% |
| Large enterprise other than traders | 9% | 10% | 11% |
| Government | 1% | 1% | 1% |
| Cooperatives | 1% | 1% | 4% |

In terms of buying inputs for their businesses, nearly three-fourth of enterprises report purchasing inputs directly from manufacturers or distributors as reflected in Table 15. It must also be noted that over 40% of businesses source inputs through agents. While less than 16% of businesses under each type of business activity report buying inputs in partnership with other businesses. Strengthening of business networks can lead to more businesses procuring their inputs in partnership with other businesses which may lead to better leverage in negotiating input prices. Supplier networks that have been in association with microenterprises have considerable soft information to assess the creditworthiness of entrepreneurs over a period of time. This makes them suitable as an alternate channel of credit particularly in the context of seasonal cash flow volatilities faced by small businesses.

[22] It must be noted that business owners were allowed to select multiple options for their responses as businesses deal with multiple types of suppliers.

Table 15: Source of Purchasing Inputs by Type of Enterprise

| Type of Source | Manufacturing | Services | Trade |
|---|---|---|---|
| Buys directly from manufacturer/distributor | 77% | 76% | 72% |
| Buys through an agent | 45% | 41% | 49% |
| Buys in partnership with other businesses | 16% | 10% | 12% |
| Buys as a member of a cooperative | 1% | 2% | 3% |

74% of business owners report receiving additional services from their suppliers. In terms of services, 50% report receiving discounts on inputs and 33% said that their suppliers offer them inventory on credit. Further, 15% of business owners said they received market leads for new business and customers from their suppliers and 19% reported receiving training/ advice on business practices. Notably less than 6% of businesses currently report receiving small loans (excluding credit) from their supplier. Strengthening relations with business networks within the enterprise ecosystem has immense potential in reducing information asymmetries between enterprises and their networks. This can be leveraged in terms of business networks serving as alternate channels of credit.

### 3.11.2 Challenges for Business Growth

The performance of business enterprises is measured by their ability to grow by leveraging the various aspects within the enterprise ecosystem. Business owners were asked questions on how their businesses have performed over the last 12 months as well as questions to understand the challenges and difficulties they face such as inadequacy of credit in expanding their businesses. Across the 10 districts, 48% of the 1737 respondents report that their business has expanded[23] over the duration of the past 12 months in comparison with the previous year while 42% felt that they did not experience any change. As highlighted in Table 16, no significant variation across sectors of business activity was found; service based enterprises have marginally lower expansion. The highest number of enterprises that experienced expansion was found in Varanasi (83%) and Sarguja (87%) while Thrissur (16%), Sivaganga (26%) and Chandrapur (33%) saw the least expansion over the past 12 months.

Table 16: Business Growth in Last 12 months by Type of Enterprise

| | Manufacturing | Services | Trade | Total |
|---|---|---|---|---|
| **Expanded** | 49% | 43% | 49% | **48%** |
| **Contracted** | 13% | 9% | 9% | **10%** |
| **Stayed the same** | 38% | 47% | 42% | **42%** |

[23] Expansion is defined in terms of the increasing scale of enterprise in terms of inventory stored, diversifying into new product lines, expanding business premises and starting secondary business on same premise.

Further, respondents were asked questions on their aspirations to expand and the major barriers they faced in expansion of their businesses. 58% of enterprise owners are looking to expand their business, and among them 75% seek to do this by expanding their current product line. Adding a new product line (45%) and expanding business premises (23%) are the other prominent modes of expansion cited by respondents.

Access to infrastructure[24] is cited as a prominent barrier to business expansion by 42% of business owners looking to expand. Further, 37% of respondents who want to expand also cite access to credit[25] to cover high labour/inventory/machine costs as a barrier to growth.

**Table 17: Barriers for Business Expansion**

| Barrier to Expansion | % of Business Owners |
|---|---|
| Access to infrastructure | **42%** |
| Access to credit to cover high labour/inventory/machine costs | **37%** |
| Lack of demand | **30%** |
| Too many competitors | 23% |
| Access to technical training | 19% |
| Lack of awareness on how to expand | 17% |
| Lack of labour availability | 12% |
| Govt./regulatory barriers | 6% |

Interactions in the enterprise ecosystem have multifold benefits for small businesses. These interactions can be effectively used as a channel for increased information flow and awareness generation in terms of financial information and access to sources of credit. Further, strengthening business relations through networking can help in mitigating informational asymmetries that have potential negative effects on the enterprise's access to different sources of credit. To this effect, business networks have the potential to serve as alternate channels for credit among microentrepreneurs. Access to credit continues to be among the major barriers faced by small businesses in terms of expanding their businesses. Seasonal cash flow volatilities add to the persistence of overall inadequacy of credit to microenterprises. The next sections look at the awareness and usage of various government financing schemes followed by a detailed analysis of the credit landscape for these microenterprises.

[24] Infrastructure is defined as the basic physical and organizational structures and facilities needed for the operation of an enterprise. This includes physical infrastructure such as buildings, roads, power supplies and organizational infrastructure such as distribution and supplier networks.

[25] Access to credit here does not reflect just the quantum of credit requirement but is reflective of other aspects of the credit process such as affordability, convenience and waiting time in getting their loan requirements.

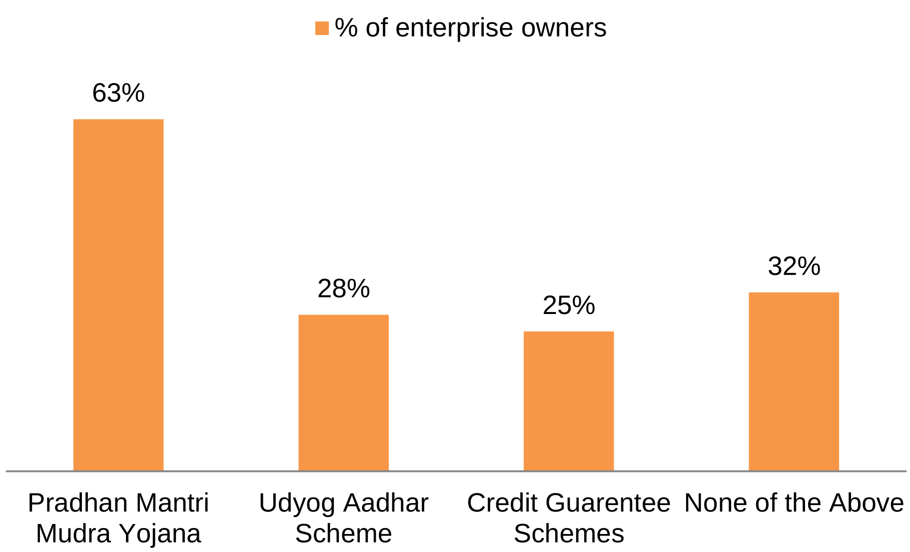
## 3.12 Awareness of Schemes

### Awareness of Government-driven Financing Schemes for MSMEs

The Government of India has launched several schemes with an aim of increasing inclusion, especially financial inclusion to meet the financing needs of non-corporate small business units of the country. The Pradhan Mantri Mudra Yojana (PMMY) was launched in 2015 to provide financial support for small business which employ majority of the Indian working population. In a similar light, the Udyog Aadhar initiative was launched in 2016 as a facility by which a business gets a 12 digit unique ID and becomes a legal entity. With these schemes being in operation for at least two years now, it is of interest to understand whether enterprises which are the targeted beneficiaries of these schemes are even aware of them and the potential of these schemes in meeting the financial needs of microentrepreneurs.

To gauge awareness, business owners were asked about their familiarity with various government schemes,[26] The study did not collect data on usage of schemes such as Pradhan Mantri Mudra Yojana (PMMY) as tagging of loans is done at different levels within the financial institution—for example, MFI loans are not tagged as PMMY at the branch level—and thus, accurate usage data cannot be collected. The proportion of respondents aware of various government schemes is highlighted in Figure 18.

**Figure 18: Awareness of Various Government Schemes**




[26] To ascertain whether respondents had not only heard about these schemes but also had some knowledge of them, our survey teams were trained to probe further through a follow up question on the characteristics of each scheme.

About 63% of all enterprise owners are aware about the Pradhan Mantri Mudra Yojana for MSME Loans. This might be in part due to the extensive advertising MUDRA has undertaken in the past year through posters with banks across a number of public spaces. Notably, districts from states that fare better on the CRISIL Inclusix Index (to measure the extent of financial inclusion within districts across India) such as Thrissur (39%), Sivaganga (49%) and Bidar (48%) have lower awareness about PMMY than states that fare lower, namely Alwar (67%), Sarguja (90%) and Ranchi (90%).

Despite the largely informal nature of the enterprises included in our sample, nearly 28% of respondents are aware of the Udyog Aadhar Scheme for registration of MSMEs that is set up to ensure wider coverage of enterprises to avail the benefits under various Schemes of Central/State governments. This could potentially be indicative of microentrepreneurs becoming aware of the benefits of registration which would include greater access to formal finance. There was higher awareness for the Udyog Aadhar scheme in Chandrapur (51%) and Varanasi (54%). Further, about one-fourth of the respondents were aware about Credit Guarantee Schemes.[27] There was higher awareness for the Credit Guarantee Scheme in Chandrapur (54%) and Varanasi (66%).

Nearly 32% of enterprise owners are not aware of **any** of the above schemes for MSMEs. Thus, there is a gap in awareness that exists that can be bridged with more targeted awareness generation programs. District-wise variation in awareness across these schemes points to a greater need for decentralized state-specific interventions in line with the regional contexts to raise awareness about these schemes. Further, access and awareness are only stepping stones for the actual usage of these schemes. There is a need to design interventions to understand the barriers faced by microentrepreneurs in ensuring that awareness is converted to uptake.

[27] The Credit Guarantee Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India (GoI) to make available collateral-free credit to the micro and small enterprise sector.

# 4 Conclusion

Overall, several key insights emerge in terms of the manner in which microentrepreneurs and microenterprises interact with formal and informal credit markets in the study areas. In line with the main study objectives, this section summarizes the main findings on the sources of finance for microenterprises, their relative preferences and challenges in accessing different credit sources, the resulting inadequacy of credit, and reliance on alternative and informal sources to address credit requirements.

Sources of Finance: On the whole, the study finds that the penetration of both formal and informal credit has increased during the period 2014-2018. While the penetration of formal finance is higher, informal lending continues to persist. Of those microenterprises that provide details of their current outstanding credit, formal sources of credit account for over 70%. On the formal side, the main sources of credit are public sector banks (40%), private sector banks (15%), and NBFC/MFIs/SFBs (7%), while on the informal side, the main sources are family/friends (12%), moneylenders (7%) and pawnbrokers (7%). The study also notes that female-owned businesses[28] appear to have less awareness and usage of bank credit than male owned businesses, and rely more on moneylenders and NBFCs/MFIs/SFBs, thus suggesting a gendered gap in the credit supply to female business owners.

Preferences: While assessing the various factors that influence microenterprise preference for credit source, the study finds that credit preferences are often determined by specific needs, and may vary accordingly—the two most common purposes of loans are to buy materials/stocks for business and to acquire new assets for an existing business. Additionally, microentrepreneurs in the sample prefer to use bank credit for buying inputs and high-cost machinery or land, while informal sources are preferred for urgent borrowing requirements.

Customer satisfaction is another important factor to consider while assessing credit preferences. The study finds that microentrepreneurs are most satisfied with informal sources on the flexibility of repayment schedule, waiting time, follow up requirements and convenience of getting the loan. While the turn-around time (TAT) for most sources is under 15 days, the TAT for banks is one the higher side (30-60 days)—along with customer service, this is an important area of dissatisfaction as far as bank credit processes are concerned. Nevertheless, enterprises report satisfaction with formal credit sources on aspects like the availability of larger loan sizes and cheaper interest rate.

Inadequacies of formal credit: The various reported gaps in formal credit provision highlighted above are primary factors due to which enterprises resort to informal lending sources. The data also highlights that credit is often downsized; there are mismatches between the amount of credit applied for and the amount of credit actually availed. The average amount applied as a loan by enterprises in the sample with currently outstanding loans is INR 2,62,167. However, the amount actually disbursed is lower (INR 2,45,128), pointing to a mismatch of around INR 17,039 (6% of the amount applied) for outstanding loans. In general, the mismatch is higher for

[28] It must be noted that the number of female-owned enterprises in our sample remains low.

formal sources (Public Sector Banks – 8%, NBFC/MFI/SFBs – 6%), as compared to informal sources (2-5%).

In addition to customer satisfaction and mismatches in credit, timely availability of credit is another important factor that can play a major role in the setting of credit preferences. A majority of microenterprises in our sample face irregular income flows and look toward various credit sources to help them cope with the volatilities. 52% of enterprises report facing cash flow shortages and inability to meet their monetary requirements for business activities in certain months of the year. During these months (mainly, February to April), over 60% of respondents rely on informal borrowings to smooth over cash-flow difficulties. This finding is driven by smaller enterprises; the burden of irregular income falls mainly on enterprises with smaller asset classes that report challenges in accessing formal credit in a fast and efficient manner. This is matched by seasonality in demand for credit that informal lenders face across the year, thereby highlighting potential for NBFCs and MFIs to bridge this gap.

Lastly, 32% of enterprise owners are not aware of Government financing schemes such as PMMY, CGT or UAM that increase accessibility to formal finance. Although a number of enterprises have availed formal loans, the understanding of credit features of a working capital loan, term loan and overdraft facilities remains low amongst the sample. There is immense potential in improving the product awareness, and specifically knowledge of the differentiated features of each of these services among microentrepreneurs. This could be instrumental in easing the barriers in accessing formal credit.

To summarize, the study notes four main reasons for the persistence of informal credit markets in our study areas:

1) Customer preferences and satisfaction with informal sources on key credit processes
2) Mismatches between amount applied for and amount disbursed
3) Inability of formal sources/formal products to help smooth cash-flow volatility
4) Gaps in awareness of government schemes and financial products

These findings point toward the possibility of enhancing the role of NBFCs/MFIs and SFBs through improvements in process, delivery and product design—these are discussed further in 5.1 and 5.2 in the next section. Additionally, gaps in awareness of schemes and products as well as gaps in understanding various features and facilities of formal financial products needs to be addressed to ensure financial inclusion.

# 5 Key Recommendations

The study finds that manufacturing enterprises have the largest share of the credit mismatch across most districts, by virtue of being capital-intensive industries. While credit planning by the Department of MSME, NABARD and other such institutions focuses on cluster development as a means to inclusive growth, a more specific sector-based approach for sector-wise development can also form an essential complementarity to the development of efficient credit markets across India. Specifically, the study findings further point to significant variations in cash flows, seasonality of businesses and credit requirements and preferences for manufacturing, trading and service activities. A well-rounded approach which involves understanding the existing supply-chains, market structures and cash flows between and across sectors can inform lending decisions, product design and delivery mechanisms more accurately. Keeping these sectoral differences in mind, the various applications of this approach are discussed below.

There are distinct steps in the pathway of impact between provision of credit and inclusive finance—product design, affordable access and processes, delivery, awareness—to target adoption and efficient usage. This section aims to provide an overview of key recommendations that can address the inadequacy in credit for microenterprises.

## 5.1 Seasonality in Enterprise Cash-Flows

- 52% of the sample report facing cash flow shortages and inability to meet their monetary requirements for business activities in certain months of the year.
- During these months (mainly, February to April), over 60% of respondents rely on informal borrowings to smooth over cash-flow difficulties.
- This finding is driven by smaller enterprises; the burden of irregular income falls mainly on enterprises with smaller asset classes that express challenges in accessing formal credit.
- Only about one in every two enterprises report maintaining a written budget; only 45% of enterprises in the smallest asset class maintain a written budget.

As highlighted, enterprises in our sample have highly irregular income flows that translate to seasonal variations in the demand for credit and decision on which credit source to approach. Given the large credit gap and challenges in accessing formal credit, enterprises often resort to relying on their own savings or on informal borrowings of low amounts to tide over demand losses. This results in risk-averse resource allocation and inefficient risk management by the enterprise. Additionally, for those with outstanding credit, borrowers find it difficult to adhere to fixed repayment schedules which results in cross borrowing, usually from informal credit sources, to meet the monthly installments. This has a couple of key implications for **product design**. MFIs/NBFCs can serve as channels to pilot flexible ways of screening, risk assessment and product terms.

Further analysis of the data suggests that in the period February to April, the microenterprises in our sample report a shortage of funds to run their daily business. It is interesting to note that this period coincides with the period of maximum revenue (festival season), thus suggesting that the higher amounts of money for raw material and inventory are potentially being incurred. The trend in our data is to rely on informal lending as well as on supplier credit to make up for the shortage in funds. with districts in the North in particular reporting a very high usage of these channels. This has further implications for **product design and services offered**.

### 5.1.1 Reducing Reliance on Informal Borrowings

Firstly, there is scope to formalize these informal borrowings by allowing for 'top-up loans' of small amounts. Although few MFI-NBFCs are now starting to consider this service or offer the product as an intermediary for banks,[29] regulations on restriction of total outstanding per borrower and inefficient risk assessment systems have resulted in a slow start. As MFIs and NBFCs have a proven record of doorstep and on-time service, this should be capitalized upon to address the needs of microenterprises and thus intermediary services should be promoted further.

The alternative to this is for MFI-NBFCs to design credit limits for these segments of enterprises, and allow borrowers to withdraw up to their credit limit in smaller transactions as per their seasonal requirement, similar to the cash-credit offering. The major challenges with the cash-credit terms offered by banks is that enterprise owners lack business management skills and efficient resource planning and allocation strategies that result in misuse of such facilities. The study findings suggest that only one in every two enterprise owners maintain a regular written budget, and only one in two owners match/check their cash flows with this budget on a monthly basis. With this in mind, the formal lending sector should actively promote such products for enterprises, bundled together with an onboarding activity on utilization of such facilities and fund management techniques.

### 5.1.2 Offering Flexibility in Product Design

Secondly, in terms of contract structure, there is potential for offering flexible credit products which are flexible on either disbursement or repayment conditions and can align with the irregularities experienced by enterprises. For example, for disbursement, 1) products with flexible repayment terms that allow borrowers to exercise 'holiday period'[xx] during periods of low cash-flows, wherein, there is relaxation in the instalment amount to be paid in chosen months of the year when borrowers would typically look to other informal lending sources or 2) products wherein borrowers have a say in the grace time period[xxi] allowed before repayment period starts or where the grace period accounts for type of economic activity.

[29] Examples of NBFCs and MFIs that are starting this service are Sonata Finance and Vistaar Financial Private Ltd.

### 5.1.3 Bundling of Financial Instruments

These findings suggest there is a need to build resilience within enterprises to deal with seasonalities and ensure growth in the face of the widening credit gap. This could translate into bundling of financial instruments such as insurance with the typical credit product. There is currently limited literature on the willingness to pay and effectiveness of insurance relevant to micro-merchants such as asset and inventory insurance, fire and hazard insurance, property insurance and loan liability, and piloting such bundled offerings could provide useful insights into successful mechanisms to reduce the reliance on informal borrowings. More importantly, an MSE sector-specific credit guarantee fund bundled with insurance for business scale-up could add tremendous value to the current offerings.

### 5.1.4 Alternative Sources of Financing

Additionally, these findings suggest that alternative lending models could have a very essential role to play, in order to ensure that enterprise credit needs are met. Whilst promoting NBFCs and MFIs, apex institutions should also promote innovations that support alternative financing. There are a range of alternative instruments, varying by levels of risk, that could be used to provide cheap credit in either of the two cases mentioned above. These are displayed in the table below. For MSEs in particular, asset-based financing is of great relevance as it can provide shorter-term credit to tide over cash flow difficulties.

| Low Risk/Return | Low Risk/Return | Medium Risk/Return | High Risk/Return |
|---|---|---|---|
| **Asset Based Finance**<br>- Asset-based lending<br>- Factoring<br>- Purchase Order Finance<br>- Warehouse Receipts<br>- Leasing | **Alternative Debt**<br>- Corporate Bonds<br>- Securitized Debt<br>- Covered Bonds<br>- Private Placements<br>- Crowdfunding (debt) | **“Hybrid Instruments”**<br>- Subordinated Loans/Bonds<br>- Silent Participations<br>- Participating Loans<br>- Profit Participation Rights<br>- Convertible Bonds<br>- Bonds with Warrants<br>- Mezzanine Finance | **Equity Instruments**<br>- Private Equity<br>- Venture Capital<br>- Business Angels<br>- Specialized Platform for Public Listing of SMEs<br>- Crowdfunding (equity) |

*Source: OECD, 2013b*

## 5.2 Addressing Downsizing of Credit

- Average mismatch between credit applied for and credit received is INR 17,039; for this gap in quantum, enterprise owners usually rely on informal sources.
- The highest mismatched is observed for manufacturing enterprises (9%) as compared to trading (6%) and services (5%).
- Enterprises report the highest downsizing of credit by public sector banks. Additionally, the mismatch is greatest for enterprises with smaller asset sizes (12% for enterprises with asset size less than INR 10 Lakhs).

The quantum of credit approved by formal institutions depends mainly on the credit scoring and underwriting and collateral offered by borrowers in this low-income enterprise segment. Formal sources such as banks have become overly risk-averse and thus cautious due to reported rising NPAs and more restrictive banking regulations. This has implications for **processes and access**.

From the variations across geographies and economic activity, it is also true that different enterprises hold different capabilities and pose different risk levels to the lender depending on their asset size, cash flows and overall debt servicing capacity, However, once credit has been disbursed, lenders treat all enterprises similarly and rigidly build their credit history. This holds implications for **processes and services**.

### 5.2.1 Alternate Data to Assess Enterprise Riskiness

Currently, lenders collect a very rigid set of business details and few household details from these borrowers as part of the risk assessment, which sometimes the enterprise owners themselves do not record accurately. However, for the scale of enterprises in the study segment, household and business cash-flows are often interlinked and there is cross-funding between enterprise and household that is important to capture as well. Additionally, the collected data excludes various parameters that are specific to this segment such as differences due to sectors and type of economic activity, volatility of cash flows, formal and/or informal investment in non-financial assets, productive allocation of credit and subjective data points collected from supply chain nodes on reputation, business engagement, relationship etc. Guidelines on sector-specific and industry-specific parameters and best practices provided by an apex institution on near accurate risk scores would further the financial inclusion agenda.

### 5.2.2 Facilitating Graduation in Formal Channels

Enterprises in different parts of their life-cycle require larger and smaller credit for different purposes. On the supply side, a small yet significant proportion of informal lenders do not lend to individuals looking to start a business or those looking to purchase large assets. The same restrictions apply to the formal supply side as well in terms of assessing the number of years an enterprise has been established. Additionally, once formally included through the MFI channel, enterprises display a strong preference for banks due to interest rates and transparency. Thus, enterprises access different sources for different purposes and different credit amounts. However, as credit bureau data has not yet been merged, the credit scores used by MFIs do not match with the MIS systems used in banks thus inhibiting graduation of these enterprises through requirements of additional documentation, stricter checks and collateral, and smaller disbursements. Discussions on merging have been ongoing and other intermediary steps, such as relaxing the strict credit appraisal methods to allow for more diverse tools using alternate data points, are required to lower the barriers to accessing credit. Apex institutions can guide the agreement between MFIs and banks on these alternate data points that can allow client graduation.

### 5.2.3 Understanding and Accounting for Differences in Riskiness

Current risk assessment methods employed by financial institutions and new scoring techniques such as those described earlier should encompass development of an early warning trigger during the credit appraisal process, with the aim of flagging riskier segments for greater levels of monitoring post-disbursement and less risky segments for less monitoring. The same set of warning triggers could alert lenders to potential repayment delays and credit requirements and once triggered, enterprises can be linked to business associations, additional business training, advisory services or any required and recommended support mechanisms. This would help enterprises cope with working capital restrictions and allocate their funds better.

### 5.2.4 Importance of Value Added Services

Using subjective approaches that incorporate an understanding of supply chains and linkages can also pave the ground for additional value-added services that can facilitate productive capital usage, better credit utilization, and overall business management. These services can take the form of market linkages along supply chains as well as advisory services focusing on financial health, resource utilization and household/business finance management. In this regard, successful examples from previous research include testing ICT-based agricultural information extension to cotton farmers[xxii] and delivery of weekly IVR-based business training to micro and small enterprise owners in Karnataka.[xxiii] These services then allow the enterprises to follow repayment schedules more closely, and improve investments and overall enterprise well-being that could result in a smaller credit mismatch for the next borrowing cycle.

## 5.3 Awareness of Financial Offerings

- 32% of enterprises are not aware of any of Government Financing schemes such as PMMY, CGT, and UAM with considerable state-wise variation.
- Awareness is only the first step to usage; awareness of credit-linked features is very low for enterprises in the sample.

The study finds that **awareness** of business-specific financial service offerings and Government designed schemes can be increased. Previous research suggests traditional approaches to building awareness through a one-size fits all model, such as advertisement campaigns and posters, do not always result in the desired outcomes. Thus, alternative methods are required that are i) engaging and relevant to the potential borrower and ii) frequent with easy access to more information.

### 5.3.1 Using Technology for Better Targeting

These methods can include story-based messages combined with Interactive-Voice-Response (IVR) based approaches sent out monthly that allow the enterprise owner to request for more information at his/her own convenience. For example, the story material can draw on study findings such as seasonality, sector variations and difficulties in accessing credit to make it relevant to the enterprise.

### 5.3.2 Leveraging Social Networks

Informal lenders leverage strong referral networks to source clients; learning from this, similar mechanisms can be used for information dissemination on financial services available to enterprises. Through a structured approach that takes the sectors and clusters into consideration, apex institutions and financial institutions serving various geographies can capitalize on social and business networks such as business and trade associations, labour unions, supply chain nodes, and informal referrals to disseminate scheme and product related information. The data shows 38% of business owners in the study sample to be a part of a business association—thus this could form a primary channel.

# 6 Longer-Term Recommendations

From a macro-perspective, one of the main barriers to business growth besides access to credit is access to infrastructure that reflects the overall support provided by the market ecosystem.

1) Whilst public and private partnerships are pivotal to addressing ecosystem gaps to further credit expansion, apex institutions play a large role in addressing ecosystem gaps. Particularly, whilst facilitating MFI expansions, setting up of banking correspondent networks and setting targets for financial institutions for various Government schemes, these ecosystem gaps need to be considered to ensure effective financial expansion.

2) Apex institutions can also play a facilitator role in strengthening capacity building and support mechanisms for such enterprises to close such ecosystem gaps. This can include providing a common platform for enterprises to interact with relevant support institutions, including but not limited to: business development and planning training, rating and valuation experts, audit services, market linkages, localized grievance redressal mechanisms and business and trade associations.

3) This study points to a possible gender gap in accessing formal credit. Future research and action-oriented outputs should focus on studying the gender gap further with the aim of informing policy-level changes that could address this.

4) To boost overall financial deepening for these segments, apex institutions should promote local and national financial institutions that are offering innovative credit products to finance the missing middle as well as encourage new ventures to establish themselves. Keeping the longer-term goal in mind, apex institutions should also promote financial institutions focused on applications of digitization to address the credit gap and the role of big data in promoting responsible lending and borrowing.

    a. Digitization of financial services plays a large role helping bridge the credit gap by allowing lower operational costs, quicker underwriting and disbursement and easier repayment. Innovations[xxiv] such as SME corner[30] that provide an online marketplace for loans for this segment are equally important in bridging the gap. Whilst investing in building support mechanisms for enterprises, apex institutions should also consider training for digital financial literacy and developing toolkits to onboard this segment onto digital platforms.
    b. Besides using their own savings, a small (yet significant) proportion of informal lenders report borrowing from formal and informal sources to fund their lending practices. Innovations in big data and machine learning are being used the around the world to answer questions on inequality, financial development and behaviour. Intensive monitoring of credit utilization at an individual level is

[30] SME Corner – www.smecorner.com - has built an online platform through which MSMEs can find, compare and access product details for unsecured business loans, loans against property, and machinery loans from various banks and non-bank partners.

expensive and difficult to monitor; even disbursements through prepaid cards have not helped this area much. However, big data techniques could be used identify patterns of fund usage, repayment trends and identify the correlates of cross-lending to enhance institutional ability to better serve the markets.

# 7 Appendix

**Table 18: Loan Details**

| | |
|---|---|
| **Total Number of enterprises** | **1737** |
| Number of enterprises not comfortable sharing any loan details | 348 |
| **Total Number of enterprises with credit data** | **1389 (1737-348)** |
| Number of enterprises with repaid loans[31] | 788 |
| Number of enterprises with outstanding loans[32] | 900 |
| Number of enterprises with only repaid loans | 489 |
| Number of enterprises with only outstanding loans | 601 |
| Number of enterprises with both repaid and current loans | 299 |
| Number of enterprises with more than 1 loan repaid in last 12 months | 44 (35-2 loans; 9-3 loans) |
| Number of enterprises with more than 1 currently outstanding loans | 67 (56-2 loans; 11-3 loans) |
| **Number of total loans** | **1819** |
| Number of repaid loans (previous borrowings) | 841 |
| Number of currently outstanding loans | 978 |

[31] Repaid loans are the loans initially taken for business purposes that have been repaid in the last 12 months
[32] Currently outstanding loans are the loans initially taken for business purposes that are currently being repaid

## Table 19: Profile of Micro entrepreneurs

| S. No | Variable | Particulars | Total | | Bidar | | Alwar | | Ranchi | | Varanasi | | Shivganga | | Thrissur | | Surguja | | Chandrapura | | Bishnupur | | Ganjam | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % |
| 1 | Gender | Male | 1604 | 92% | 176 | 98% | 180 | 100% | 147 | 82% | 180 | 100% | 175 | 98% | 164 | 91% | 179 | 99% | 166 | 92% | 127 | 71% | 110 | 93% |
| | | Female | 133 | 8% | 4 | 2% | 0 | 0% | 33 | 18% | 0 | 0% | 4 | 2% | 16 | 9% | 1 | 1% | 14 | 8% | 53 | 29% | 8 | 7% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 2 | Age Group | 20-30 Years | 315 | 18% | 49 | 28% | 33 | 18% | 58 | 32% | 42 | 23% | 12 | 7% | 19 | 11% | 35 | 19% | 43 | 24% | 14 | 8% | 10 | 8% |
| | | 31-40 Years | 746 | 43% | 78 | 43% | 83 | 46% | 57 | 32% | 66 | 37% | 59 | 33% | 100 | 55% | 96 | 53% | 63 | 35% | 94 | 52% | 50 | 42% |
| | | 41-50 Years | 475 | 27% | 34 | 19% | 46 | 26% | 41 | 22% | 58 | 32% | 61 | 34% | 51 | 28% | 41 | 23% | 47 | 26% | 56 | 31% | 40 | 34% |
| | | 51-60 Years | 175 | 10% | 18 | 10% | 15 | 8% | 21 | 12% | 14 | 8% | 38 | 21% | 10 | 6% | 7 | 4% | 23 | 13% | 13 | 7% | 16 | 14% |
| | | Above 60 Years | 26 | 1% | 1 | 1% | 3 | 2% | 3 | 2% | 0 | 0% | 9 | 5% | 0 | 0% | 1 | 1% | 4 | 2% | 3 | 2% | 2 | 2% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 3 | Level of Education | Did not go to School | 23 | 1% | 3 | 2% | 0 | 0% | 8 | 4% | 3 | 2% | 3 | 2% | 0 | 0% | 3 | 2% | 2 | 1% | 0 | 0% | 1 | 1% |
| | | Below Class 10 | 476 | 27% | 71 | 39% | 51 | 28% | 101 | 56% | 44 | 24% | 55 | 31% | 15 | 8% | 31 | 17% | 36 | 20% | 23 | 13% | 49 | 42% |
| | | Class 10 Pass | 276 | 16% | 37 | 21% | 28 | 16% | 27 | 15% | 20 | 11% | 30 | 17% | 35 | 19% | 26 | 14% | 27 | 15% | 33 | 18% | 13 | 11% |
| | | Class 12 Pass | 465 | 27% | 31 | 17% | 52 | 29% | 15 | 8% | 44 | 24% | 26 | 15% | 77 | 43% | 65 | 36% | 63 | 35% | 67 | 37% | 25 | 21% |
| | | Graduate and Above | 370 | 21% | 16 | 9% | 40 | 22% | 25 | 14% | 65 | 36% | 48 | 27% | 17 | 9% | 48 | 27% | 46 | 26% | 41 | 23% | 24 | 20% |
| | | Vocational/ Technical | 127 | 7% | 22 | 12% | 9 | 5% | 4 | 2% | 4 | 2% | 17 | 9% | 36 | 20% | 7 | 4% | 6 | 3% | 16 | 9% | 6 | 5% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 4 | Documentation Available* | Aadhar | 1709 | 98% | 180 | 100% | 180 | 100% | 173 | 96% | 180 | 100% | 174 | 97% | 180 | 100% | 180 | 100% | 177 | 98% | 179 | 99% | 106 | 90% |
| | | PAN | 1515 | 87% | 158 | 88% | 170 | 94% | 131 | 73% | 164 | 91% | 168 | 93% | 168 | 93% | 172 | 96% | 159 | 88% | 142 | 79% | 83 | 70% |
| | | Tax Certificate | 774 | 45% | 34 | 19% | 77 | 43% | 54 | 30% | 95 | 53% | 133 | 74% | 92 | 51% | 114 | 63% | 129 | 72% | 10 | 6% | 36 | 31% |
| | | Title Deed for Business Premises | 327 | 19% | 56 | 31% | 31 | 17% | 54 | 30% | 16 | 9% | 68 | 38% | 31 | 17% | 23 | 13% | 33 | 18% | 3 | 2% | 12 | 10% |
| 5 | Social Category | General | 505 | 32% | | | 83 | 46% | 33 | 18% | 36 | 20% | 0 | 0% | 37 | 21% | 48 | 27% | 69 | 38% | 149 | 83% | 50 | 42% |
| | | SC | 66 | 4% | | | 6 | 3% | 14 | 8% | 7 | 4% | 4 | 2% | 8 | 4% | 1 | 1% | 22 | 12% | 0 | 0% | 4 | 3% |
| | | ST | 61 | 4% | | | 2 | 1% | 42 | 23% | 0 | 0% | 0 | 0% | 0 | 0% | 1 | 1% | 13 | 7% | 2 | 1% | 1 | 1% |
| | | OBC | 861 | 55% | | | 89 | 49% | 85 | 47% | 137 | 76% | 174 | 97% | 101 | 56% | 130 | 72% | 75 | 42% | 29 | 16% | 41 | 35% |
| | | Refused to Answer | 64 | 4% | | | 0 | 0% | 6 | 3% | 0 | 0% | 1 | 1% | 34 | 19% | 0 | 0% | 1 | 1% | 0 | 0% | 22 | 19% |
| | | **Total** | 1557 | 100% | | | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |

* Documentation Available - Respondents can have more than one document and hence the sum total % is greater than 100.

## Table 20: Profile of Micro enterprises

| S. No | Variable | Particulars | Total | | Bidar | | Alwar | | Ranchi | | Varanasi | | Shivganga | | Thrissur | | Surguja | | Chandrapur | | Bishnupur | | Ganjam | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % | N | % |
| 1 | Type of Micro enterprises | Manufacturing | 562 | 32% | 49 | 27% | 62 | 34% | 73 | 41% | 59 | 33% | 63 | 35% | 59 | 33% | 60 | 33% | 58 | 32% | 61 | 34% | 18 | 15% |
| | | Service | 556 | 32% | 62 | 34% | 60 | 33% | 47 | 26% | 61 | 34% | 58 | 32% | 62 | 34% | 49 | 27% | 61 | 34% | 59 | 33% | 37 | 31% |
| | | Trade | 619 | 36% | 69 | 38% | 58 | 32% | 60 | 33% | 60 | 33% | 58 | 32% | 59 | 33% | 71 | 39% | 61 | 34% | 60 | 33% | 63 | 53% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 2 | Ownership Structure | Owned Solely | 1441 | 83% | 158 | 88% | 137 | 76% | 157 | 87% | 159 | 88% | 145 | 81% | 156 | 87% | 170 | 94% | 151 | 84% | 111 | 62% | 97 | 82% |
| | | Owned by HH | 205 | 12% | 18 | 10% | 11 | 6% | 16 | 9% | 20 | 11% | 28 | 16% | 14 | 8% | 9 | 5% | 6 | 3% | 64 | 36% | 19 | 16% |
| | | Owned jointly with someone from HH | 41 | 2% | 3 | 2% | 19 | 11% | 5 | 3% | 0 | 0% | 2 | 1% | 7 | 4% | 0 | 0% | 3 | 2% | 0 | 0% | 2 | 2% |
| | | Owned jointly with someone outside HH | 50 | 3% | 1 | 1% | 13 | 7% | 2 | 1% | 1 | 1% | 4 | 2% | 3 | 2% | 1 | 1% | 20 | 11% | 5 | 3% | 0 | 0% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 3 | Estimate Size of Business Assets | Below 10 lakhs | 1149 | 66% | 171 | 95% | 109 | 61% | 154 | 86% | 122 | 68% | 37 | 21% | 86 | 48% | 97 | 54% | 109 | 61% | 162 | 90% | 102 | 86% |
| | | 10-15 lakhs | 342 | 20% | 8 | 4% | 52 | 29% | 14 | 8% | 43 | 24% | 61 | 34% | 45 | 25% | 58 | 32% | 40 | 22% | 11 | 6% | 10 | 8% |
| | | 15-20 lakhs | 144 | 8% | 0 | 0% | 14 | 8% | 7 | 4% | 15 | 8% | 35 | 19% | 22 | 12% | 19 | 11% | 23 | 13% | 5 | 3% | 4 | 3% |
| | | 20-25 lakhs | 102 | 6% | 1 | 1% | 5 | 3% | 5 | 3% | 0 | 0% | 46 | 26% | 27 | 15% | 6 | 3% | 8 | 4% | 2 | 1% | 2 | 2% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 4 | No. of Employees | 2-3 | 1412 | 81% | 140 | 78% | 165 | 92% | 159 | 88% | 158 | 88% | 117 | 65% | 99 | 55% | 148 | 82% | 158 | 88% | 162 | 90% | 106 | 90% |
| | | 4-6 | 261 | 15% | 32 | 18% | 14 | 8% | 17 | 9% | 21 | 12% | 43 | 24% | 60 | 33% | 27 | 15% | 19 | 11% | 16 | 9% | 12 | 10% |
| | | 7-10 | 64 | 4% | 8 | 4% | 1 | 1% | 4 | 2% | 1 | 1% | 19 | 11% | 21 | 12% | 5 | 3% | 3 | 2% | 2 | 1% | 0 | 0% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |
| 5 | Age of the Micro Enterprise | 2-5 years | 437 | 25% | 59 | 33% | 29 | 16% | 36 | 20% | 45 | 25% | 34 | 19% | 50 | 28% | 44 | 24% | 58 | 32% | 39 | 22% | 43 | 36% |
| | | 6-10 years | 477 | 27% | 53 | 29% | 62 | 34% | 45 | 25% | 51 | 28% | 33 | 18% | 64 | 36% | 48 | 27% | 42 | 23% | 54 | 30% | 25 | 21% |
| | | 11-15 years | 252 | 15% | 8 | 4% | 36 | 20% | 31 | 17% | 38 | 21% | 13 | 7% | 18 | 10% | 45 | 25% | 20 | 11% | 29 | 16% | 14 | 12% |
| | | More than 15 years | 571 | 33% | 60 | 33% | 53 | 29% | 68 | 38% | 46 | 26% | 99 | 55% | 48 | 27% | 43 | 24% | 60 | 33% | 58 | 32% | 36 | 31% |
| | | **Total** | 1737 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 179 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 180 | 100% | 118 | 100% |

## Table 21: Sources of Credit in Previous Borrowings

| Sources | Total | | | Bidar | | | | Alwar | | | | Ranchi | | | | Varanasi | | | | Shivaganga | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 305 | 36.27% | 297 | 12 | 15.19% | 8 | 119,375 | 20 | 22.22% | 20 | 109,500 | 10 | 21.28% | 10 | 142,000 | 66 | 50.38% | 66 | 366364 | 25 | 50.00% | 25 | 240,200 |
| Private Sector Bank | 137 | 16.29% | 133 | 11 | 13.92% | 10 | 185,400 | 10 | 11.11% | 10 | 147,300 | 5 | 10.64% | 5 | 111,200 | 20 | 15.27% | 19 | 382,632 | 12 | 24.00% | 10 | 242,500 |
| Cooperative Bank | 48 | 5.71% | 46 | 3 | 3.80% | 3 | 34,333 | | | | | | | | | 2 | 1.53% | 2 | 37,500 | 3 | 6.00% | 3 | 70,000 |
| NBFC/MFI/SFB | 54 | 6.42% | 53 | 3 | 3.80% | 2 | 87,500 | 3 | 3.33% | 3 | 125,000 | 16 | 34.04% | 16 | 19,000 | 6 | 4.58% | 6 | 60,000 | 3 | 6.00% | 3 | 18,333 |
| SHG | 27 | 3.21% | 26 | 1 | 1.27% | 1 | 40,000 | 2 | 2.22% | 2 | 82,500 | 1 | 2.13% | 1 | 50,000 | 9 | 6.87% | 9 | 37,778 | | | | |
| **Total** | **571** | **67.90%** | **555** | **30** | **37.98%** | **24** | **130,292** | **35** | **38.88%** | **35** | **120,086** | **32** | **68.09%** | **32** | **72,813** | **103** | **78.63%** | **102** | **315,931** | **43** | **86.00%** | **41** | **212,073** |
| **Informal Sources** | | | | | | | | | | | | | | | | | | | | | | | |
| Moneylenders | 67 | 7.97% | 57 | 21 | 26.58% | 14 | 44,286 | 1 | 1.11% | 1 | 50,000 | 3 | 6.38% | 3 | 9,000 | | | | | 4 | 8.00% | 3 | 33,333 |
| Pawnbrokers | 69 | 8.20% | 69 | | | | | 34 | 37.78% | 34 | 44,559 | 6 | 12.77% | 6 | 15,333 | 10 | 7.63% | 10 | 70,500 | 2 | 4.00% | 2 | 60,000 |
| Business Networks | 6 | 0.71% | 6 | | | | | 1 | 1.11% | 1 | 150,000 | | | | | 1 | 0.67% | 1 | 200,000 | | | | |
| Family/Friends/Rel | 128 | 15.22% | 120 | 28 | 35.44% | 23 | 49,435 | 19 | 21.11% | 19 | 64,737 | 6 | 12.77% | 5 | 48,400 | 17 | 12.98% | 15 | 76,000 | 1 | 2.00% | 1 | 20,000 |
| **Total** | **270** | **32.10%** | **252** | **49** | **62.02%** | **37** | **47,487** | **55** | **61.11%** | **55** | **53,545** | **15** | **31.92%** | **14** | **25,786** | **28** | **21.28%** | **26** | **78,654** | **7** | **14.00%** | **6** | **40,000** |
| | | | | | | | | | | | | | | | | | | | | | | | |
| **Grand Total** | **841** | **100%** | **807** | **79** | **100%** | **61** | **80,066** | **90** | **100%** | **90** | **79,422** | **47** | **100%** | **46** | **58,500** | **131** | **100%** | **128** | **267,734** | **50** | **100%** | **47** | **190,106** |

| Sources | Trissur | | | Surguja | | | | Chandrapur | | | | Bishnupur | | | | Ganjam | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 20 | 23.81% | 18 | 83 | 63.85% | 83 | 397,952 | 45 | 36.29% | 43 | 298,930 | 5 | 7.46% | 5 | 164,000 | 19 | 48.72% | 19 | 92,474 |
| Private Sector Bank | 17 | 20.24% | 17 | 12 | 9.23% | 12 | 212,500 | 43 | 34.68% | 43 | 278,419 | 4 | 5.97% | 4 | 36,250 | 3 | 7.69% | 3 | 85,000 |
| Cooperative Bank | 13 | 15.48% | 11 | 4 | 3.08% | 4 | 185,750 | 31 | 16.94% | 21 | 133,524 | 2 | 2.99% | 2 | 139,000 | | | | |
| NBFC/MFI/SFB | | | | 4 | 3.08% | 4 | 138,750 | 4 | 3.23% | 4 | 136,250 | 14 | 20.90% | 14 | 58,829 | 1 | 2.56% | 1 | 30,000 |
| SHG | | | | 3 | 2.31% | 3 | 21,667 | 8 | 6.45% | 7 | 35,714 | 2 | 2.99% | 2 | 20,000 | 1 | 2.56% | 1 | 5,550 |
| **Total** | **50** | **59.53%** | **46** | **106** | **81.55%** | **106** | **348,519** | **131** | **97.59%** | **118** | **240,890** | **27** | **40.31%** | **27** | **78,022** | **24** | **61.53%** | **24** | **85,315** |
| **Informal Sources** | | | | | | | | | | | | | | | | | | | |
| Moneylenders | 6 | 7.14% | 4 | | | | | | | | | 24 | 35.82% | 24 | 48,333 | 8 | 20.51% | 8 | 15,125 |
| Pawnbrokers | 3 | 3.57% | 3 | 13 | 10.00% | 13 | 175,385 | | | | | | | | | 1 | 2.56% | 1 | 100,000 |
| Business Networks | | | | 4 | 3.08% | 4 | 87,000 | | | | | | | | | | | | |
| Family/Friends/Rel | 25 | 29.76% | 25 | 7 | 5.38% | 7 | 145,714 | 3 | 2.42% | 3 | 85,000 | 16 | 23.88% | 16 | 49,375 | 6 | 15.38% | 6 | 15,333 |
| **Total** | **34** | **40.47%** | **32** | **24** | **18.46%** | **24** | **152,000** | **3** | **2.42%** | **3** | **85,000** | **40** | **59.70%** | **40** | **48,750** | **15** | **38.45%** | **15** | **20,867** |
| | | | | | | | | | | | | | | | | | | | |
| **Grand Total** | **84** | **100%** | **78** | **130** | **100%** | **130** | **312,239** | **134** | **100%** | **121** | **237,025** | **67** | **100%** | **67** | **60,546** | **39** | **100%** | **39** | **60,527** |

## Table 22: Sources of Credit in Current Outstanding

| Sources | Total | | | | Bidar | | | | Alwar | | | | Ranchi | | | | Varanasi | | | | Shivaganga | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 387 | 39.57% | 371 | 341,247 | 20 | 22.73% | 10 | 190,500 | 33 | 28.95% | 33 | 175,758 | 46 | 38.98% | 45 | 224,176 | 46 | 58.23% | 46 | 288,739 | 27 | 40.91% | 24 | 376,083 |
| Private Sector Bank | 150 | 15.34% | 146 | 358,349 | 7 | 7.95% | 5 | 105,000 | 17 | 14.91% | 17 | 232,353 | 5 | 4.24% | 5 | 73,400 | 8 | 10.13% | 8 | 154,625 | 10 | 15.15% | 10 | 465,000 |
| Cooperative Bank | 55 | 5.62% | 52 | 420,461 | 1 | 1.14% | 1 | 200,000 | 1 | 0.88% | 1 | 150,000 | | | | | 2 | 2.53% | 2 | 65,000 | 5 | 7.58% | 5 | 83,000 |
| NBFC/MFI/SFB | 69 | 7.06% | 65 | 91,378 | 5 | 5.68% | 1 | 50,000 | 6 | 5.26% | 6 | 195,833 | 27 | 22.88% | 27 | 52,074 | 1 | 1.27% | 1 | 85,000 | 9 | 13.64% | 9 | 88,889 |
| SHG | 56 | 5.73% | 54 | 31,203 | 4 | 4.55% | 3 | 46,666 | 5 | 4.39% | 5 | 45,000 | 11 | 9.32% | 11 | 29,273 | 6 | 7.59% | 6 | 49,167 | 1 | 1.52% | | |
| **Total** | **717** | **73.32%** | **688** | **303,134** | **37** | **42%** | **20** | **141,000** | **62** | **54%** | **62** | **182,258** | **89** | **75%** | **88** | **138,442** | **63** | **80%** | **63** | **238,556** | **52** | **79%** | **48** | **310,229** |
| **Informal Sources** | | | | | | | | | | | | | | | | | | | | | | | | |
| Moneylenders | 67 | 6.85% | 57 | 54,045 | 16 | 18.18% | 10 | 91,500 | 1 | 0.88% | 1 | 20,000 | 7 | 5.93% | 7 | 14,429 | | | | | 6 | 9.09% | 6 | 73,333 |
| Pawnbrokers | 69 | 7.06% | 69 | 95,043 | | | | | 32 | 28.07% | 32 | 100,625 | 17 | 14.41% | 17 | 73,706 | 8 | 10.13% | 8 | 92,500 | 3 | 4.55% | 3 | 35,000 |
| Business Networks | 10 | 1.02% | 10 | 90,500 | 2 | 2.27% | 2 | 65,000 | 2 | 1.75% | 2 | 50,000 | | | | | 2 | 2.53% | 2 | 225,000 | 3 | 4.55% | 3 | 55,000 |
| Family/Friends/Rel | 115 | 11.76% | 97 | 70,907 | 33 | 37.50% | 15 | 75,666 | 17 | 14.91% | 17 | 56,176 | 5 | 4.24% | 5 | 9,600 | 6 | 7.59% | 6 | 40,833 | 2 | 3.03% | 2 | 105,000 |
| **Total** | **261** | **26.69%** | **233** | **74,771** | **51** | **58%** | **27** | **80,740** | **52** | **46%** | **52** | **82,596** | **29** | **25%** | **29** | **48,345** | **16** | **20%** | **16** | **89,688** | **14** | **21%** | **14** | **65,714** |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| **Grand Total** | **978** | **100%** | **921** | **245,362** | **88** | **100%** | **47** | **106,383** | **114** | **100%** | **114** | **136,798** | **##** | **100%** | **##** | **116,110** | **79** | **100%** | **79** | **208,405** | **66** | **100%** | **62** | **255,016** |

| Sources | Trissur | | | | Surguja | | | | Chandrapur | | | | Bishnupur | | | | Ganjam | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 48 | 50.00% | 48 | 646,875 | 79 | 71.82% | 79 | 391,013 | 61 | 32.11% | 60 | 280,283 | 2 | 3.33% | 2 | 60,000 | 25 | 43.86% | 24 | 317,708 |
| Private Sector Bank | 20 | 20.83% | 20 | 843,750 | 10 | 9.09% | 10 | 576,000 | 65 | 34.21% | 63 | 274,301 | 4 | 6.67% | 4 | 105,000 | 4 | 7.02% | 4 | 350,000 |
| Cooperative Bank | 8 | 8.33% | 7 | 292,857 | 1 | 0.91% | 1 | 8,000 | 31 | 16.32% | 29 | 616,931 | 5 | 8.33% | 5 | 194,000 | 1 | 1.75% | 1 | 50,000 |
| NBFC/MFI/SFB | 4 | 4.17% | 4 | 300,000 | 1 | 0.91% | 1 | 25,000 | 5 | 2.63% | 5 | 103,000 | 9 | 33.33% | 9 | 69,289 | 2 | 3.51% | 2 | 30,000 |
| SHG | | | | | 7 | 6.36% | 7 | 32,571 | 21 | 11.05% | 21 | 21,905 | | | | | 1 | 1.75% | 1 | 15,000 |
| **Total** | **80** | **83%** | **79** | **647,784** | **98** | **89%** | **98** | **376,643** | **183** | **96%** | **178** | **297,551** | **20** | **52%** | **20** | **106,680** | **33** | **58%** | **32** | **285,938** |
| **Informal Sources** | | | | | | | | | | | | | | | | | | | | |
| Moneylenders | 6 | 6.25% | 2 | 125,000 | | | | | | | | | 19 | 31.67% | 19 | 49,400 | 12 | 21.05% | 12 | 34,667 |
| Pawnbrokers | | | | | 4 | 3.64% | 4 | 270,000 | 2 | 1.05% | 2 | 35,000 | | | | | 3 | 5.26% | 3 | 30,000 |
| Business Networks | | | | | | | | | | | | | | | | | 1 | 1.75% | 1 | 60,000 |
| Family/Friends/Rel | 10 | 10.42% | 10 | 178,000 | 8 | 7.27% | 8 | 120,625 | 5 | 2.63% | 5 | 29,000 | 21 | 35.00% | 21 | 52,857 | 8 | 14.04% | 8 | 35,625 |
| **Total** | **16** | **17%** | **12** | **169,166** | **12** | **11%** | **12** | **170,417** | **7** | **4%** | **7** | **30,714** | **40** | **67%** | **40** | **51,215** | **24** | **42%** | **24** | **35,458** |
| | | | | | | | | | | | | | | | | | | | | |
| **Grand Total** | **96** | **100%** | **91** | **584,670** | **110** | **100%** | **110** | **354,146** | **190** | **100%** | **185** | **287,454** | **60** | **118%** | **60** | **69,703** | **57** | **100%** | **56** | **175,983** |

**Table 23: Quantum of Credit Requirement from Various Sources**

| Sources | Previous Borrowings | | | | | | Current Borrowings | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | <50K | 51K-1lakh | 1-3Lakh | 3-5lakh | 5-10lakh | >10lakh | <50K | 51K-1lakh | 1-3Lakh | 3-5lakh | 5-10lakh | >10lakh |
| Public Sector Bank | 29.03% | 35.00% | 51.52% | 50.00% | 62.00% | 72.22% | 21.75% | 33.72% | 53.47% | 66.67% | 69.81% | 68.09% |
| Private Sector Bank | 9.68% | 25.00% | 24.24% | 25.00% | 24.00% | 27.78% | 8.49% | 16.86% | 24.75% | 14.81% | 18.87% | 27.66% |
| Cooperative Bank | 6.45% | 13.33% | 15.15% | 12.50% | | | 5.57% | 8.14% | 6.93% | 3.70% | 1.89% | 4.26% |
| NBFC/MFI/SFB | 8.87% | 6.67% | 1.52% | 12.50% | 3.45% | | 10.61% | 7.56% | 2.97% | 11.11% | 2.83% | |
| SHG | 6.45% | 3.33% | | | | | 12.73% | 3.49% | | | | |
| Total | 60% | 83% | 92% | 100% | 89% | 100% | 59% | 70% | 88% | 96% | 93% | 100% |
| **Informal Sources** | | | | | | | | | | | | |
| Moneylenders | 16.94% | 5.00% | 1.52% | | | | 11.41% | 7.56% | 2.48% | | | |
| Pawnbrokers | | 5.00% | 3.03% | | 3.45% | | 11.67% | 6.40% | 3.96% | 3.70% | 4.72% | |
| Business networks | 7.26% | | | | | | 1.06% | 2.33% | 0.99% | | | |
| Family/Friends/Rela | 15.32% | 6.67% | 3.03% | | 6.90% | | 16.71% | 13.95% | 4.46% | | 1.89% | |
| Total | 40% | 17% | 8% | 0% | 10% | 0% | 41% | 30% | 12% | 4% | 7% | 0% |
| | | | | | | | | | | | | |
| **Grand Total** | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

**Table 24: Microenterprise wise Credit Requirement**

| **M E Type** | Previous Borrowings | | | | | | Current Borrowings | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | <50K | 51K-1lakh | 1-3Lakh | 3-5lakh | 5-10lakh | >10lakh | <50K | 51K-1lakh | 1-3Lakh | 3-5lakh | 5-10lakh | >10lakh |
| Manufactur | 29.75% | 28.10% | 31.84% | 28.00% | 34.25% | 45.71% | 38.10% | 27.91% | 27.23% | 18.52% | 28.30% | 44.68% |
| Trading | 34.71% | 37.91% | 38.81% | 40.00% | 38.36% | 42.86% | 30.69% | 33.72% | 45.05% | 40.74% | 36.79% | 38.30% |
| Service | 35.54% | 33.99% | 29.35% | 32.00% | 27.40% | 11.43% | 31.22% | 38.37% | 27.72% | 40.74% | 34.91% | 17.02% |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

### Table 25: Asset Size and Sources of Credit Classification (Previous)

| Sources | Below 10lakhs | | | | 10-15lakhs | | | | 16-20lakhs | | | | 21-25lakhs | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 181 | 31.75% | 176 | 216,903 | 60 | 43.80% | 59 | 367,728 | 39 | 48.15% | 37 | 402,702 | 25 | 47.17% | 25 | 564,000 |
| Private Sector Bank | 77 | 13.51% | 76 | 174,421 | 26 | 18.98% | 24 | 323,500 | 15 | 18.52% | 15 | 344,000 | 19 | 35.85% | 18 | 658,333 |
| Cooperative Bank | 17 | 2.98% | 17 | 137,117 | 14 | 10.22% | 14 | 105,857 | 13 | 16.05% | 11 | 190,909 | 4 | 7.55% | 4 | 275,000 |
| NBFC/MFI/SFB | 46 | 8.07% | 45 | 45,946 | 4 | 2.92% | 4 | 95,000 | 3 | 3.70% | 3 | 253,333 | 1 | 1.89% | 1 | 15,000 |
| SHG | 23 | 4.04% | 22 | 36,843 | 4 | 2.92% | 4 | 36,250 | | | | | | | | |
| **Total** | **344** | **60%** | **336** | **168,571** | **108** | **79%** | **105** | **299,685** | **70** | **86%** | **66** | **347,272** | **49** | **92%** | **48** | **563,854** |
| **Informal Sources** | | | | | | | | | | | | | | | | |
| Moneylenders | 58 | 10.18% | 51 | 43,882 | 3 | 2.19% | 3 | 23,333 | 4 | 4.94% | 2 | 52,500 | 2 | 3.77% | 1 | 20,000 |
| Pawnbrokers | 56 | 9.82% | 56 | 52,267 | 8 | 5.84% | 8 | 174,375 | 4 | 4.94% | 4 | 175,000 | 1 | 1.89% | 1 | 20,000 |
| Business Networks | 5 | 0.88% | 5 | 109,600 | 1 | 0.73% | 1 | 150,000 | | | | | | | | |
| Family/Friends/Relatives | 107 | 18.77% | 100 | 58,940 | 17 | 12.41% | 16 | 97,812 | 3 | 3.70% | 3 | 270,666 | 1 | 1.89% | 1 | 20,000 |
| **Total** | **226** | **40%** | **212** | **54,750** | **29** | **21%** | **28** | **113,571** | **11** | **14%** | **9** | **179,666** | **4** | **8%** | **3** | **20,000** |
| | | | | | | | | | | | | | | | | |
| **Grand Total** | **570** | **100%** | **548** | **124,538** | **137** | **100%** | **133** | **260,503** | **81** | **100%** | **75** | **327,160** | **53** | **100%** | **51** | **531,862** |

### Table 26: Asset Size and Sources of Credit Classification (Current)

| Sources | Below 10lakhs | | | | 10-15lakhs | | | | 16-20lakhs | | | | 21-25lakhs | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Formal Sources** | N | % | N | AB | N | % | N | AB | N | % | N | AB | N | % | N | AB |
| Public Sector Bank | 210 | 33.98% | 200 | 253,004 | 116 | 54.21% | 112 | 433,491 | 37 | 44% | 36 | 433,333 | 24 | 39.34% | 23 | 515,260 |
| Private Sector Bank | 77 | 12.46% | 73 | 169,534 | 38 | 17.76% | 38 | 536,157 | 20 | 24% | 20 | 350,750 | 15 | 24.6% | 15 | 846,666 |
| Cooperative Bank | 25 | 4.05% | 23 | 75,304 | 16 | 7.48% | 16 | 180,437 | 7 | 8% | 6 | 157,500 | 7 | 11.5% | 7 | 2,328,571 |
| NBFC/MFI/SFB | 50 | 8.09% | 46 | 66,078 | 8 | 3.74% | 8 | 147,500 | 5 | 6% | 5 | 177,000 | 6 | 9.8% | 6 | 139,166 |
| SHG | 47 | 7.61% | 46 | 29,565 | 8 | 3.74% | 7 | 42,857 | 1 | 1% | 1 | 25,000 | | | | |
| **Total** | **409** | **66%** | **388** | **178,114** | **186** | **87%** | **181** | **404,928** | **70** | **82%** | **68** | **359,852** | **52** | **85%** | **51** | **817,372** |
| **Informal Sources** | | | | | | | | | | | | | | | | |
| Moneylenders | 55 | 8.90% | 49 | 48,787 | 5 | 2.34% | 5 | 94,000 | 5 | 6% | 1 | 200,000 | 2 | 3.3% | 2 | 10,000 |
| Pawnbrokers | 50 | 8.09% | 50 | 64,660 | 10 | 4.69% | 10 | 157,000 | 6 | 7% | 6 | 275,000 | 3 | 4.9% | 3 | 35,000 |
| Business Networks | 8 | 1.29% | 8 | 98,750 | | | | | | | | | 2 | 3.3% | 2 | 57,500 |
| Family/Friends/Relatives | 96 | 15.53% | 79 | 56,556 | 13 | 6.07% | 12 | 113,333 | 4 | 5% | 4 | 210,000 | 2 | 3.3% | 2 | 105,000 |
| **Total** | **209** | **34%** | **186** | **58,503** | **28** | **13%** | **27** | **125,925** | **15** | **18%** | **11** | **244,545** | **9** | **15%** | **9** | **50,000** |
| | | | | | | | | | | | | | | | | |
| **Grand Total** | **618** | **100%** | **574** | **139,165** | **214** | **100%** | **208** | **368,711** | **85** | **100%** | **79** | **343,797** | **61** | **100%** | **60** | **702,266** |

**Table 27: Credit Requirement (Demand and Supply)-Previous**

| M E Type | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Manufacturing | 263 | 244,102 | 225,101 | 19,001 | 8 |
| Trading | 308 | 208,273 | 190,551 | 17,722 | 9 |
| Services | 268 | 156,403 | 147,220 | 9,183 | 6 |
| **Total** | **839** | **202,935** | **187,540** | **15,395** | **8** |

**Table 28: Credit Requirement, by District-Previous**

| District | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Bidar | 93 | 94,462 | 82,516 | 11,946 | 13 |
| Alwar | 90 | 81,811 | 79,422 | 2,389 | 3 |
| Ranchi | 46 | 79,217 | 58,500 | 20,717 | 26 |
| Varanasi | 128 | 282,031 | 267,734 | 14,297 | 5 |
| Shivaganga | 47 | 212,766 | 190,106 | 22,660 | 11 |
| Thrissur | 78 | 268,461 | 268,461 | - | 0 |
| Surguja | 130 | 335,253 | 312,238 | 23,015 | 7 |
| Chandrapur | 121 | 273,057 | 237,024 | 36,033 | 13 |
| Bishnupur | 67 | 62,313 | 60,546 | 1,767 | 3 |
| Ganjam | 39 | 67,512 | 60,526 | 6,986 | 10 |
| **Total** | **839** | **202,935** | **187,540** | **15,395** | **8** |

**Table 29: Credit Requirement (Demand and Supply)-Current**

| M E Type | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Manufacturing | 302 | 283,255 | 257,830 | 25,425 | 9 |
| Trading | 330 | 293,295 | 277,105 | 16,190 | 6 |
| Services | 290 | 204,785 | 195,513 | 9,272 | 5 |
| **Total average** | **922** | **262,167** | **245,128** | **17,039** | **6** |

**Table 30: Credit Requirement, by District-Current**

| District | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Bidar | 47 | 135,106 | 106,383 | 28,723 | 21 |
| Alwar | 114 | 145,175 | 136,798 | 8,377 | 6 |
| Ranchi | 117 | 127,933 | 116,110 | 11,823 | 9 |
| Varanasi | 79 | 217,493 | 208,405 | 9,088 | 4 |
| Shivaganga | 62 | 255,581 | 255,016 | 565 | 0 |
| Thrissur | 91 | 644,011 | 584,670 | 59,341 | 9 |
| Surguja | 110 | 364,190 | 354,145 | 10,045 | 3 |
| Chandrapur | 185 | 312,243 | 287,454 | 24,789 | 8 |
| Bishnupur | 60 | 70,333 | 69,703 | 630 | 1 |
| Ganjam | 57 | 178,438 | 175,982 | 2,456 | 1 |
| **Total average** | **922** | **262,167** | **245,128** | **17,039** | **6** |

Table 31: Loan Features- Previous

| Formal Sources | Average Loan Duration (months) | Average Interest Rate (%per annum) | Average Interest Rate (%per annum) | TAT (majority MSMEs) | Average Additional Expenses |
|---|---|---|---|---|---|
| Public Sector Bank | 36 | 18% | 12.0% | <15 days | 4,607 |
| Private Sector Bank | 40 | 19% | 14.0% | <15 days | 7,505 |
| Cooperative Bank | 33 | 19% | 12.5% | <15 days | 3,341 |
| NBFC/MFI/SFB | 16 | 36% | 24.0% | <15 days | 1,599 |
| SHG | 15 | 41% | 24.0% | <15 days | 526 |
| **Informal Sources** | | | | | |
| Moneylenders | 20 | 33% | 36.0% | <15 days | 2,900 |
| Pawnbrokers | 11 | 30% | 24.0% | <15 days | 430 |
| Business Networks | 24 | 36% | 36.0% | <15 days | 6,000 |
| Family/Friends/Relatives | 21 | 28% | 24.0% | <15 days | 325 |

Table 32: Loan Features- Current

| Formal Sources | Average Loan Duration (months) | Average Interest Rate (%per annum) | Average Interest Rate (%per annum) | TAT (majority MSMEs) | Average Additional Expenses |
|---|---|---|---|---|---|
| Public Sector Bank | 41 | 16% | 12% | 30-60 days | 4,895 |
| Private Sector Bank | 39 | 17% | 13% | <15 days | 5,207 |
| Cooperative Bank | 28 | 14% | 13% | <15 days | 4,196 |
| NBFC/MFI/SFB | 18 | 25% | 18% | <15 days | 623 |
| SHG | 14 | 25% | 24% | <15 days | 1,140 |
| **Informal Sources** | | | | | |
| Moneylenders | 14 | 37% | 36% | <15 days | 256 |
| Pawnbrokers | 18 | 34% | 36% | <15 days | 117 |
| Business Networks | 20 | 21% | 24% | <15 days | 360 |
| Family/Friends/Relatives | 17 | 32% | 24% | <15 days | 378 |

**Table 33: Microenterprise wise Purpose of Loan-Previous**

| Purpose of Loan | Manufacturing | | Trading | | Service | |
|---|---|---|---|---|---|---|
| | N | % | N | % | N | % |
| To buy stock/materials for business | 158 | 62% | 184 | 58% | 132 | 48% |
| Acquire new assets for an existing business | 105 | 41% | 125 | 40% | 136 | 50% |
| Solve cash flow problems for the HH | 15 | 6% | 22 | 7% | 31 | 11% |
| Solve cash flow problems for the business | 23 | 9% | 32 | 10% | 32 | 12% |

**Multiple choice question

**Table 34: Microenterprise wise Purpose of Loan-Current**

| Purpose of Loan | Manufacturing | | Trading | | Service | |
|---|---|---|---|---|---|---|
| | N | % | N | % | N | % |
| To buy stock/materials for business | 172 | 56 | 197 | 55 | 157 | 50 |
| Acquire new assets for an existing business | 128 | 42% | 169 | 47% | 143 | 46% |
| Solve cash flow problems for the HH | 30 | 10% | 20 | 6% | 24 | 8% |
| Solve cash flow problems for the business | 40 | 13% | 55 | 15% | 53 | 17% |

**Multiple choice question

**Table 35: Credit Mismatch, by Asset Size- Previous**

| Asset Size | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
|---|---|---|---|---|---|
| Below 10 lakhs | 575 | 134570 | 122317 | 12253 | 9 |
| 10-15 lakhs | 137 | 283708 | 256949 | 26759 | 9 |
| 15-20 lakhs | 75 | 338893 | 327160 | 11733 | 3 |
| <25 lakhs (>20 lakhs) | 52 | 550000 | 524519 | 25481 | 5 |
| **Total** | **839** | **202,935** | **187,540** | **15,395** | **8** |

**Table 36: Credit Mismatch, by Age of Enterprise**

| Age of enterprise | Previous Borrowings | | | | | Current Borrowings | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
| 2-5 years | 216 | 145236 | 126657 | 18579 | 13 | 249 | 251063 | 237557 | 13506 | 5 |
| 6-10 years | 227 | 218295 | 198402 | 19893 | 9 | 238 | 219119 | 200028 | 19091 | 9 |
| 11-15 years | 132 | 246758 | 230477 | 16281 | 7 | 141 | 394070 | 362453 | 31617 | 8 |
| More than 15 years | 264 | 215027 | 206546 | 8481 | 4 | 294 | 243159 | 231781 | 11378 | 5 |
| **Total** | **839** | **202,935** | **187,540** | **15,395** | **8** | **922** | **262,167** | **245,128** | **17,039** | **6** |

**Table 37: Credit Mismatch, by Quantum of Loan Demanded**

| Loan Size | Previous Borrowings | | | | | Current Borrowings | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch | N | Average Amount Needed (in Rs) | Average Amount Borrowed (in Rs) | Mismatch | % Mismatch |
| Less than 50K | 362 | 35226 | 34052 | 1174 | 3 | 374 | 33529 | 32678 | 851 | 3 |
| 51K-1L | 149 | 93557 | 87489 | 6068 | 6 | 168 | 93571 | 86836 | 6735 | 7 |
| 1L-3L | 199 | 214271 | 194321 | 19950 | 9 | 200 | 223385 | 206440 | 16945 | 8 |
| 3L-5L | 25 | 391440 | 369440 | 22000 | 6 | 27 | 393925 | 352444 | 41481 | 11 |
| 5L-10L | 70 | 556714 | 516185 | 40529 | 7 | 106 | 604434 | 576132 | 28302 | 5 |
| more than 10L | 34 | 1534559 | 1410118 | 124441 | 8 | 47 | 2001596 | 1857957 | 143639 | 7 |
| **Total** | **839** | **202,935** | **187,540** | **15,395** | **8** | **922** | **262,167** | **245,128** | **17,039** | **6** |

Table 38: Informal Lenders Summary

| % of lenders | Alwar | Bidar | Bishnupur | Chandrapur | Ganjam | Ranchi | Sarguja | Shivaganga | Thrissur | Varanasi |
|---|---|---|---|---|---|---|---|---|---|---|
| **Number** | 15 | 15 | 16 | 18 | 18 | 16 | 19 | 22 | 15 | 16 |
| **Gender (Male)** | 100% | 100% | 50% | 50% | 88.89% | 100% | 100% | 100% | 93.33% | 100% |
| **Age** | 30-40 years | 30-40 years | 30-50 years | 30-40 years | 30-40 years | 40-50 years | 30-40 years | 40-50 years | 50-60 years | 20-30 years |
| **Type** | | | | | | | | | | |
| Pawn brokers | 20% | 66.67% | 6.25% | 22.22% | 61.11% | 62.50% | 68.42% | 40.91% | 40% | 31.25% |
| Money lender | 80% | 26.67% | 87.50% | 38.89% | 16.67% | 18.75% | 15.79% | 54.55% | 20% | 62.50% |
| Supplier/Wholesaler/Shop owner | - | - | 6.25% | 16.67% | 5.56% | 18.75% | 15.79% | 4.55% | - | 6.25% |
| Chit-fund owner | - | 6.67% | - | - | - | - | - | - | 40% | - |
| **Years in business** | | | | | | | | | | |
| Less than 5 years | 13.33% | 13.33% | 50% | 61.11% | 76.47% | 18.75% | 68.42% | 22.73% | 40% | 62.50% |
| 5-10 years | 60% | 13.33% | 37.50% | 38.89% | 5.88% | 43.75% | 31.58% | 27.27% | 13.33% | 12.50% |
| More than 10 years | 26.67% | 73.34% | 12.50% | - | 17.64% | 37.50% | - | 50% | 46.67% | 25% |
| **Primary business** | 13.33% | 53.33% | 50% | 16.67% | 29.41% | 31.25% | 47.37% | 90.91% | 93.33% | 56.25% |
| **Monthly income (mean)** | Rs. 9286 | Rs. 25,000 | Rs. 14,531 | Rs. 15,278 | Rs. 10,938 | Rs. 10,937 | Rs. 10,526 | Rs. 33,690 | Rs. 43,750 | Rs. 8,906 |
| **Source of funding** | | | | | | | | | | |
| Own money - savings | 86.67% | 100% | 93.75% | 88.89% | 88.89% | 75% | 100% | 100% | 100% | 100% |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Formal loans | - | 33.33% | 18.75% | 33.33% | - | 31.25% | 26.32% | 45.45% | 6.67% | 6.25% |
| Informal loans | 33.33% | 53.33% | - | 16.67% | 5.56% | 37.50% | 47.37% | - | 26.67% | 25% |
| **Experience demand seasonality** | 53.85% | 40% | 46.67% | 94.44% | 85.71% | 53.33% | 77.78% | 18.18% | 75% | 87.50% |
| **Avg loan amount disbursed** | | | | | | | | | | |
| Less than Rs. 10,000 | - | 28.57% | 40% | 38.89% | 5.88% | 25% | 26.32% | - | 58.33% | 25% |
| Rs. 10,000 – Rs. 20,000 | 28.57% | 14.29% | 33.33% | 44.44% | 29.41% | 43.75% | 36.84% | 31.82% | 16.67% | 43.75% |
| Rs. 20,000 – Rs. 35,000 | 35.71% | 35.71% | 6.67% | 11.11% | 23.53% | 12.50% | 15.79% | 22.73% | 16.67% | 12.50% |
| Rs. 35,000 – Rs. 50,000 | 21.43% | 14.29% | 6.67% | - | 17.65% | 18.75% | 15.79% | 18.18% | 8.33% | 12.50% |
| Rs. 50,000 – Rs. 75,000 | 7.14% | 7.14% | 13.33% | - | 11.76% | - | 5.26% | 13.64% | - | - |
| More than Rs. 75,000 | 7.14% | - | - | 5.56% | 11.76% | - | - | 13.64% | - | 6.25% |
| **Screening of clients** | 76.92% | 86.67% | 81.25% | 77.78% | 66.67% | 78.57% | 100% | 57.14% | 100% | 81.25% |
| **Collateral (formal or informal)** | 40% | 100% | 25% | 27.78% | 62.50% | 13.33% | 84.21% | 77.27% | 100% | 31.25% |
| **Experience client default** | 30% | 86.67% | 62.50% | 38.89% | 50% | 80% | 42.11% | 9.09% | 100% | 31.25% |

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