



ACCION
INSIGHTS

India MSME: Innovations to Increase Financial Access

Lessons Learned
From a Pilot With
Swadhaar FinServe
and RBL Bank

**Accion Global
Advisory Solutions**

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Contents

- 1.0 Executive Summary
- 2.0 A New Type of Partnership
- 3.0 The MSME Opportunity in India
- 4.0 Building the Partnership
- 5.0 Testing an Innovative Business Model, with a Focus on Women
 - 5.1 Customized Products and Processes
 - 5.2 Convenient Channels
 - 5.3 Streamlined Operations
 - 5.4 Customized Decision-Based Methodology
- 6.0 Key Lessons Learned
 - 6.1 Partnership is key to quickly building a scalable model
 - 6.2 Customized products and processes are important to reach MSMEs
 - 6.3 A robust evaluation process is critical to maintain portfolio quality
 - 6.4 The right human capital provides the foundation for growth
 - 6.5 Designing the right DFA takes time and leadership
- 7.0 Looking Forward
- 8.0 About This Paper

Introduction



The Indian economy includes almost 30 million micro, small and medium enterprises (MSMEs) – largely informal businesses that make up eight percent of India’s GDP and employ almost 70 million people living at the base of the pyramid. This market represents an enormous opportunity for financial inclusion, an estimated 75 percent of MSMEs access funding only through informal sources. However, most financial institutions have run into challenges designing processes and products appropriate for MSMEs, which are often too large to qualify for microfinance loans but too small to be profitably served by commercial banks.

In early 2015, Swadhaar FinServe and RBL Bank launched an innovative business correspondent (BC) partnership to reduce the financing gap for this market through a customized approach for MSME clients, with a particular focus on women-owned businesses. The partnership was designed to leverage each institution’s strengths and expertise – Swadhaar, a microfinance institution with more than 10 years of experience in the informal market, would focus on acquiring and retaining clients, while RBL Bank would provide the financing and resources required to adequately serve and grow MSME businesses. This was the first BC partnership in India focused on offering loans.

In this report, we discuss the key considerations that have shaped the partnership and the design choices that drive the structure of Swadhaar MSME's operations, and evaluate the lessons learned through the first year of lending activities.

RBL Bank would provide the financing and resources required to adequately serve and grow MSME businesses. This was the first BC partnership in India focused on offering loans. The partners designed a business model that would address prior constraints to reaching the MSME market and encourage the participation of women-owned businesses. As many MSMEs lack business assets and credit history, Swadhaar and RBL Bank piloted a unique discussion-based assessment methodology that did not require formal documentation. Loan products were designed to be flexible, with unsecured options for MSMEs lacking collateral, and easily accessible via a wide branch network and door-to-door salesforce highly trained in client assessment and education. Technologies and new business models were also piloted to optimize efficiencies and better serve customers – for example, digital applications that capture client information in the field, and scoring methodologies that facilitate quick lending decisions and customized service.

The Swadhaar MSME pilot began operations in January of 2016. By the end of September 2016, Swadhaar MSME had grown to 1,820 active clients serviced through 18 branches in two of India's states: 15 percent of its active clients were women – a significant percentage compared to other MSME lenders in the market (understood to be as low as three percent women) – and the outstanding portfolio was valued at Rs. 27.9 crore* with an excellent quality of zero PAR 30+. Nine months of operations have

provided valuable experience and critical lessons for the Swadhaar MSME management team: the business's initial performance has validated the need for a customized methodology and a robust evaluation process, and has highlighted both the importance and challenges of staffing and rolling out digital solutions. Most importantly, the pilot results have underscored the need for a strong, committed partnership to support the experimentation and innovation required to set up a BC. Given the positive results to date, Swadhaar and RBL Bank recently updated the Swadhaar MSME business plan to call for increased growth over the next few years, with expansion to 100 branches in 6 states by the end of March 2019. Clients are expected to grow to 70,595 through a loan portfolio of Rs. 8,698 million. Targeting women-owned MSMEs will remain a core part of Swadhaar and RBL Bank's strategy and vision as they look to expand to new regions. Based on the success of this model, RBL Bank now sees Swadhaar as the 'engine of growth' for the MSME sector, though which they can expand to new geographies and offer additional products.

In this report, we discuss the key considerations that have shaped the partnership and the design choices that drive the structure of Swadhaar MSME's operations, and evaluate the lessons learned through the first year of lending activities. The model presented can serve as a point of reference for financial institutions looking to reach the MSME market and female entrepreneurs, particularly through partnership.

*One crore denotes ten million in the Indian numbering system.

2.0

A New Type of Partnership

On a humid summer afternoon in 2014, Veena Mankar, founder and chairperson of Swadhaar Finserve, Rajeev Ahuja, Head of Strategy, Retail and Financial Inclusion at RBL Bank, and Abhishek Agrawal, then India country Director for Accion met at RBL Bank's offices in downtown Mumbai. The goal of the meeting was to discuss a unique opportunity that had come about through recent regulatory changes – a BC partnership to serve the untapped MSME market through a new business model and assessment methodology. This market, which included millions of enterprises that require financing between Rs. one and 20 lakh** had become known as the 'missing middle' – too large to be served by microfinance institutions and too small to be served by commercial banks.

While this segment had traditionally been underserved by the financial sector, all three institutions had long been eager to reach this market at scale, and had each piloted several initiatives. Success had been mixed: RBL Bank had reached some MSMEs through its branch network, but conservative policies excluded many promising clients and handicapped growth. Swadhaar, with the support of long term partner Accion, had developed and deployed an innovative assessment model appropriate for the base of the pyramid and gained years of experience acquiring and serving MSME clients through individual and group loans. However, as a non-bank finance company microfinance institution (NBFC MFI), Swadhaar faced funding and regulatory constraints that severely restricted loan size and limited their ability to grow with MSME clients.

For Veena, Rajeev, and Abhishek, the partnership's potential for impact was clear – if they could bring together Swadhaar's market knowledge and experience, Accion's innovative assessment methodology, and RBL Bank's strong balance sheet and brand, they could build an innovative, scalable business model with the right processes, products, and policies to reach the missing middle. The partners began to develop a vision that would continue to take shape over the next few years.

** One lakh denotes one hundred thousand in the Indian numbering system.

The MSME Opportunity in India

There are 29.8 million MSMEs in India, representing nearly eight percent of India’s GDP, and accounting for almost half of both of the country’s exports and its manufacturing output.¹ MSMEs have been called the “true job creators” in India’s economy, and employ an estimated 70 million people living at or near the base of the pyramid.²

FIGURE 1. MSMEs IN INDIA

In India, MSMEs are defined by their investment in plant and machinery (for manufacturing or production businesses) or equipment (for service businesses).³

	SECTOR COMPOSITION	INVESTMENT	
		PLANT AND MACHINERY	EQUIPMENT
MICRO 	~28.4 million (95 percent)	<Rs. 25 lakh	<Rs. 10 lakh
SMALL 	~1.4 million (4.7 percent)	>Rs. 25 lakh and <Rs. 5 crore	>Rs. 10 lakh and <Rs. 2 crore
MEDIUM 	~90 thousand (0.3 percent)	>Rs. 5 crore but <Rs. 10 crore	>Rs. 2 crore and <Rs. 5 crore

Women currently make up almost half of India’s population, and could play an outsized role in expanding business creation and expediting overall development.

“Micro, small and medium enterprises are an integral part of the growth engine in India. Financial inclusion will be incomplete without addressing their financial needs in a manner that is commercially attractive for mainstream institutions. Women-owned enterprises in particular face not only economic but also cultural hurdles in access to finance. We need to figure out the right way to reach them, and once we do, the potential for impact on the individual, the community, and the country cannot be overstated.”

– Veena Mankar, Founder and Chairperson, Swadhaar FinServe

True women-owned enterprises (in which a woman is the majority owner and employer) represent about 10 percent of all MSMEs in India, and employ over eight million people. 78 percent of these enterprises are in the services sector, and 98 percent are classified as ‘micro’.⁴ Although a small segment of the overall market, women-owned enterprises have an important impact on the economy – one study found that women in emerging markets invest 90 cents of every additional dollar of income into their families’ education, health and nutrition as compared to 30-40 cents for men.⁵ Women currently make up almost half of India’s population, and could play an outsized role in expanding business creation and expediting overall development.

Despite their prevalence and important economic role, many MSMEs have difficulty accessing the financing they need to grow. As 90 percent of MSMEs are unregistered and part of the informal economy, their owners cannot access government programs that have been developed to support them. Traditional financial institutions have also limited their exposure to MSME businesses due to high operational costs and perceived risk, and only the smallest businesses qualify for the extremely small loans offered through NBFC MFIs. MSMEs typically lack the collateral and business documentation needed to access funding through traditional sources, and are reliant on family and friends to provide guarantees to access loans. 75 percent of this market is leveraging only the limited funds available through informal sources.⁶

Women-owned MSMEs face even greater challenges in accessing financing, with 90 percent or more reporting that they only have access to informal sources.⁷ Although the growth of the microfinance sector in India has helped to establish women as credible borrowers, there is still a clear gap in access – particularly for larger loans. Women entrepreneurs tend to face unique challenges as compared to their male counterparts when interacting with financial institutions – from inflexible credit policies to cultural biases. Figure 2 summarizes some of the barriers identified from a series of focus group discussions held in mid-2016.

FIGURE 2. BARRIERS PREVENTING WOMEN ENTREPRENEURS FROM ACCESSING FINANCING

Accion partnered with the Indian School of Business to conduct 21 focus group discussions with 166 women entrepreneurs across Delhi, Mumbai, Pune, Bangalore, Hyderabad, and Indore. All women were graduates of the Goldman Sachs 10,000 Women program, a global initiative that fosters economic growth by providing women entrepreneurs with a business and management education, mentoring and networking, and access to capital. The discussions aimed to reveal the experiences of women entrepreneurs in accessing funding for their business and identify any financial barriers women-owned MSMEs face. Common barriers are listed below, with selected quotes:

LACK OF ADEQUATE COLLATERAL AND CREDIT HISTORY:

Access to collateral is an issue for women entrepreneurs. Due to inheritance laws, most property is in the name of the male family member. Property purchased after marriage is typically jointly held, so women have to obtain permission from their spouses to provide such property as collateral. Women-owned businesses also tend to have limited or no credit history, incomplete or missing financial statements, and limited savings, which make them less attractive to lenders.



FOCUS GROUP QUOTE:

“We [a group of 4 women] rent our premises in Mumbai. We approached a bank last quarter for a loan, but were advised to get a co-borrower (preferably a husband or male family member) as there was no collateral to offer.”

CUMBERSOME AND INFLEXIBLE POLICIES AND PROCESSES:

Most financial institutions require a spouse or parent to serve as a co-applicant for the loan. Processes are often extensive, and include detailed documentation requirements, lengthy procedures, and long processing times that increase with the size of the loan. This is particularly challenging for young or startup businesses.



FOCUS GROUP QUOTE:

“I have been asked for additional documents every time I request a loan – even if it’s against collateral! The bank manager seems to require extra precautionary steps.”

Women-owned businesses also tend to have limited or no credit history, incomplete or missing financial statements, and limited savings, which make them less attractive to lenders.

CONFUSING AND COMPLEX PRODUCTS:

Women entrepreneurs often have had less exposure to the formal financial sector, and have a lower level of financial education. Some reported difficulty in understanding the bank’s suite of products and terms.



FOCUS GROUP QUOTE:

“I find it difficult to understand the additional fees I have to pay. Banks keep revising charges for things like documentation, cheque books, credit card fees, and loan pre-closure.”

Women also mentioned a number of challenges related to gender dynamics and cultural perceptions:



UNFAVORABLE PERCEPTION OF STABILITY:

Financial institutions view women-owned businesses as higher risk. Many think that income from women-owned businesses is secondary for the household, and so these businesses may shut down more quickly in the face of challenges. An important parameter banks consider is an applicant’s age and marital status – younger, single women entrepreneurs are believed to be particularly high risk, as they are expected to move residences once married. Even within family units, there is a cultural aversion to putting household capital ‘at risk’ through women-led entrepreneurial activity – if funding is allocated, it is often inadequate, and women are encouraged to rely solely on their labor to move businesses forward.

GENDER DYNAMICS:

In certain regions of India, it is taboo for a woman to work or even ask for a loan from an institution, instead of borrowing from her family or community.

This lack of access to finance for both male and female entrepreneurs is considered to be the largest constraint to growth in the MSME sector.

Building the Partnership

Over the last few years, financial institutions of all types have attempted to roll out products and delivery channels to reach this missing middle, but have faced numerous challenges. Commercial banks lack exposure to or experience with this sector, and have encountered difficulties deploying their standard risk and credit evaluation techniques. Specialist financing firms like NBFC MFIs face regulatory and funding constraints that limit MSME lending – for example, NBFC-MFIs are required to have 85 percent of their portfolio in ‘qualifying assets’⁸.

In mid-2014, new regulations from the Reserve Bank of India enabled the development of a BC partnership between commercial banks and NBFC MFIs, intended to pair the market knowledge and lending expertise of NBFC MFIs with the resources and financing of larger banks. In a typical BC model, the NBFC MFI focuses on acquiring and evaluating clients, while the loans are booked on the balance sheet of the bank.

Swadhaar and RBL Bank first entered into a BC partnership in late 2014. The partners initially focused on expanding Swadhaar’s successful joint liability group loan (see Box 3). This was the first and largest asset-based BC relationship in India since the regulation passed – while there had been other partnerships where the BC focused on collecting savings for the bank, none had tried using a BC to offer loans. In 2015, Swadhaar and RBL Bank expanded this partnership to include a new business unit focused on MSME-lending, which would include the development

“This was a new model for all of us. Everyone had to be willing to invest time and resources, to collaborate and compromise, and to take the leap and trust each other.”

– Madhan Mohan, COO and Head, Swadhaar MSME

of new loan products and customized processes to reach this underserved market. This market was strategically important for both parties, who had made prior attempts to reach the segment.

In addition to the BC relationship, RBL Bank took a large (30 percent) ownership stake in Swadhaar, and joined the board alongside Accion.

After conducting market analysis, the partners defined Swadhaar MSME’s target customer segment as micro and small business owners in the trade, manufacturing, and service businesses with a monthly business turnover between Rs. one lakh and Rs. one crore

In 2015, Swadhaar and RBL Bank expanded this partnership to include a new business unit focused on MSME-lending, which would include the development of new loan products and customized processes to reach this underserved market.

FIGURE 3. KEY PARTNERS: SWADHAAR AND RBL BANK LTD



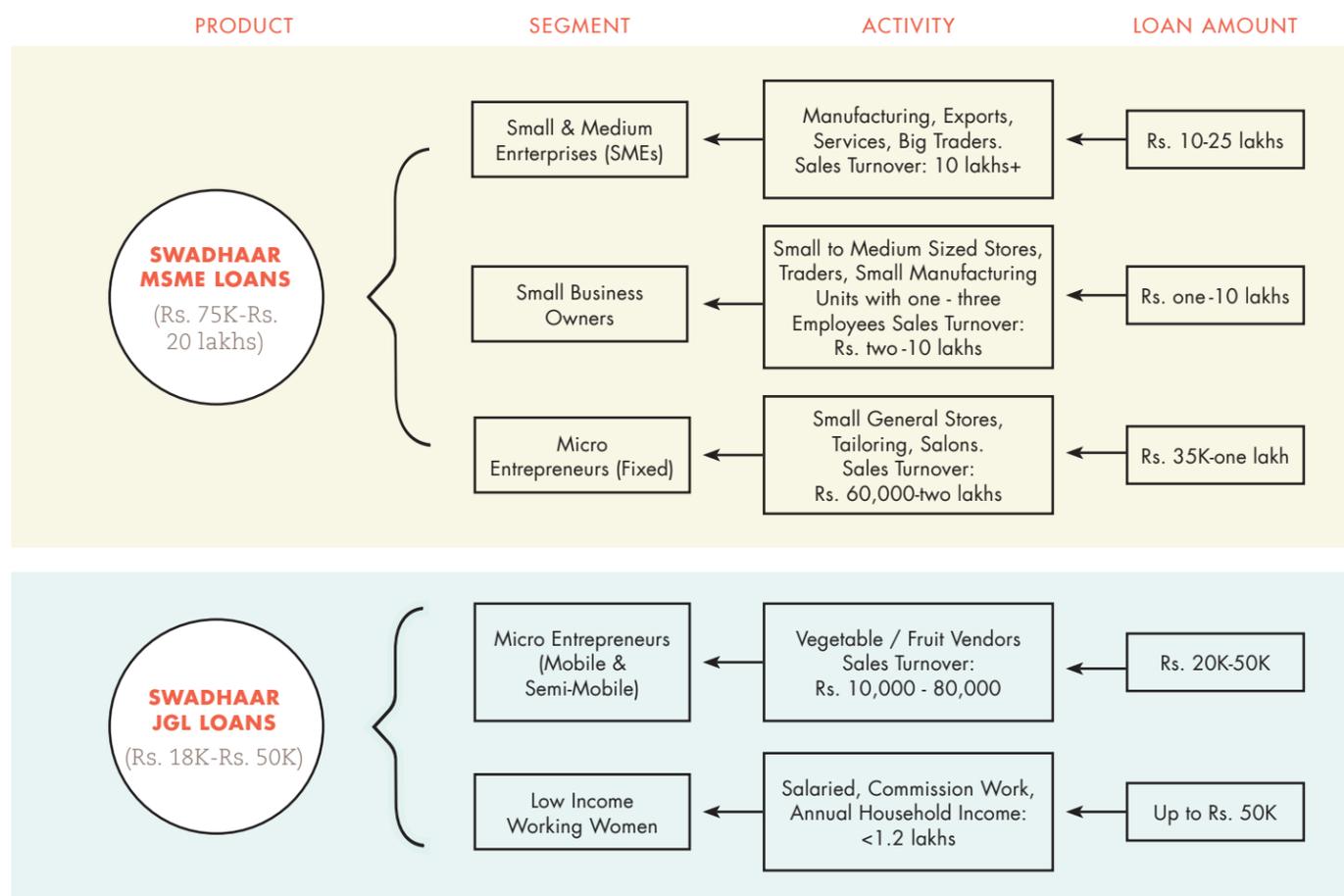
Swadhaar was started in 2005 as a nonprofit to provide financial services to the urban poor and improve their economic capacity. Swadhaar started its operations with an adapted group product in which it offered individual loans to women in a joint-liability group (JLG), and soon thereafter rolled out an individual lending product to the microenterprise segment. Swadhaar received its NBFC license in 2008. Following the microfinance crisis in 2010 in India, the rules on NBFCs were tightened and Swadhaar was no longer able to offer the higher-value loan products required by the microenterprise segment. In early 2014, Swadhaar transferred its JLG portfolio to RBL Bank, and initiated a business correspondent partnership. In 2016, Swadhaar surrendered its NBFC MFI license and now operates exclusively as a servicing company and business correspondent for RBL Bank.

Established in 1943, RBL Bank is one of India’s fastest growing commercial banks, and considers financial inclusion as a key strategy for continued growth. As of August 2016, RBL Bank serves more than 1,400,000 customers through a network of 201 branches and 365 ATMs across 16 Indian states and Union Territories. The total business size is over Rs. 31,000 crores. RBL Bank believes that the best way to reach rural remote customers is to make banking a convenient, affordable exercise. BCs like Swadhaar are an important strategy for RBL Bank to reach areas and customers outside of its branch network. Over time, these BC partnerships will evolve to offer a variety of products for different customer segments, all driven through technology.

and an annual household income between Rs. one lakh and Rs. 15 lakhs – firmly within the ‘missing middle’. This group was mostly semi-formal and unregistered, and would primarily require financing needs for productive purposes – including short term working capital, longer term asset financing, business expansion, and debt consolidation. Swadhaar’s new MSME products would complement the market served by JLG loans, effectively expanding access across the financially underserved. While this market was already partially served by RBL Bank through small business loans, the BC offered the opportunity to deploy a more flexible, customized methodology better suited to MSME needs.

Swadhaar's new MSME products would complement the market served by joint-liability group loans, effectively expanding access across the financially underserved.

FIGURE 4. SWADHAAR TARGET MARKET



In setting up the MSME vertical, roles mirrored the original BC partnership; Swadhaar remained as the primary point of contact for the client and the lead on loan sourcing, evaluation, and servicing, while RBL Bank booked loans and oversaw compliance with the Bank's credit policies/Know Your Customer (KYC) requirements and portfolio monitoring. Key senior managers from

Swadhaar and RBL Bank participated in the design of new products, processes, and technologies, with three senior managers from RBL Bank transferring to Swadhaar full time. Accion, a long term Swadhaar partner and investor, was also contracted to provide technical input and guidance on lending methodology, staff training, channels, and technology.

FIGURE 5. ROLES AND RESPONSIBILITIES

SWADHAAR	RBL BANK
<ul style="list-style-type: none"> Client and field research Credit product, process, and channel design and improvement Marketing, promotion, and client sourcing Client evaluation Loan servicing Client analytics Relationship management and customer service Back office operations (finance, legal, compliance, audit) 	<ul style="list-style-type: none"> Banking product offerings (saving, insurance, etc.) Loan booking and disbursement Core banking system/IT operations Portfolio funding and monitoring Banking regulation and compliance Risk management Loan approval
<p>← OVERALL STRATEGY AND DIRECTION • CREDIT RISK SHARING • KNOWLEDGE SHARING, FEEDBACK, AND IMPROVEMENT →</p>	

Swadhaar earns income on the outstanding portfolio for loan sourcing, servicing, collection and efficiency, as well as an upfront fee for loan disbursement. This new initiative was seen as mutually beneficial for both parties:

- For RBL Bank, the partnership was a valuable opportunity to better serve the missing middle through a proven partner with over 10 years of experience. While RBL Bank had already been serving this market through small business loans, the BC arrangement allowed the use of a new methodology with more flexibility and customization. This allowed more effective customer acquisition and servicing at reduced costs. It also set up a future opportunity to cross-sell traditional banking products.

- For Swadhaar, the BC partnership provided access to the funding necessary to reach MSME customers, and the infrastructure, resources, and brand of a nationally recognized bank. It also allowed Swadhaar to focus on its core strengths: loan originations, servicing, credit analytics, and delinquency management among informal customers.

Swadhaar MSME began operations in January of 2016. The initial business plan called for expansion to 42 branches in four states by the end of March 2017, with the goal of reaching almost 6,900 active clients.

Testing an Innovative Business Model, with a Focus on Women

The new business model designed for Swadhaar MSME includes several innovative features and ‘unique selling propositions’ customized to meet the needs of the MSME market. Particular emphasis was placed on attracting and serving women-owned enterprises, which is a part of Swadhaar’s mission and a core area of focus.

FIGURE 6. KEY FEATURES OF SWADHAAR MSME’S BUSINESS MODEL

CUSTOMIZED PRODUCTS AND PROCESSES	CONVENIENT CHANNELS	STREAMLINED OPERATIONS
<ul style="list-style-type: none"> Broad product offering, including unsecured and secured loans Non-document based evaluation 	<ul style="list-style-type: none"> Cashless branch and electronic repayment Wide branch network Door-to-door sales 	<ul style="list-style-type: none"> Data-based scoring methodology Digital information capture Comprehensive staff training

CUSTOMIZED PRODUCTS AND PROCESSES

The large variety of MSMEs in India makes it unlikely that a single loan product will meet the specific needs of all prospective borrowers. Swadhaar offers a range of four different loan products with customizable sizes and tenures based on the needs of the MSME and the purpose of the loan. This flexibility also allows MSMEs to grow with Swadhaar MSME, and meet all their financing needs with Swadhaar.

The mix includes secured and unsecured loans – with unsecured loans of up to Rs. five lakhs – which is critical for MSMEs that may lack collateral. Longer loan terms allow for monthly installments that can be easily repaid, and clients have the option to prepay their loan if they’d like to renew. All products also include credit life insurance.

“We knew the challenges of reaching these businesses...and that we needed to take a different approach. We wanted to test out new ways to access and serve our clients.”

– Abhishek Agrawal, then India Country Director, Accion

FIGURE 7. SWADHAAR MSME PRODUCT MIX

PRODUCT NAME	TYPE OF ASSETS/ PROJECTS TO BE FINANCED	LOAN AMOUNT (RS)	INTEREST RATE (PERCENT P.A.)	TENURE (MONTHS)
WORKING CAPITAL LOANS (UNSECURED)	Inventory, short-term financing requirements	75,000 – 200,000	28 percent	6 - 18
UNSECURED LOANS (NEGATIVE LIEN)	Business development, expansion, debt consolidation	100,000 – 500,000	26 percent	12 - 48
ASSET FINANCING LOANS	Loan against immovable assets like equipment/ machineries	100,000 – 1,000,000	26 percent	12 - 72
SECURED LOANS	Business development, business expansion, debt consolidation etc.	100,000 – 2,500,000	23 percent	24 - 84

CUSTOMIZED DECISION-BASED METHODOLOGY

Swadhaar MSME’s assessment methodology and processes were also designed with MSMEs in mind. A large proportion of MSMEs, especially those in the service sector, typically lack business assets, credit history, and information on borrowings and cash transactions. To address this, Swadhaar piloted a customized discussion-based assessment methodology known as ‘Trade Reference Checks’ in three of its first nine branches. This methodology has several components important for MSMEs:

- Does not require formal documentation (sales tax receipts, bank statements, or income tax returns). Instead, relationship officers – the sales force at Swadhaar – are trained to triangulate information through various sources, including a detailed discussion with the client to understand his or her business and background checks with suppliers, customers, and neighbors. The processes focus on assessing the client’s business know-how and experience (stability, turnover, past credit history, and willingness) and use sales and margin estimation techniques in lieu of income and sales documentation to reveal business cash flows and capacity to repay.

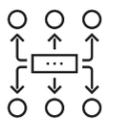
- Does use a variety of means to establish credit history, including the credit bureau, bank statements, and reference checks. This is important for informal MSMEs that may not have any formal history with the credit bureau.

Swadhaar also accepts hand-written receipts – or ‘Kaccha bills’ – as proof of sales for loans up to Rs. 2,500,000.

The flexible, discussion-based approach outlined above is very different from RBL Bank’s formal requirements. To ensure alignment with the bank’s policies and risk appetite, strong emphasis has been placed on a stringent application of credit methodology, including extensive training, clear checks and oversight, and immediate action against defaulters. Over time, as the pilot has shown success, the bank has grown more comfortable with the lack of formal documentation, and has authorized more and larger loans through an increasing number of Swadhaar MSME branches.

To ensure alignment with the bank's policies and risk appetite, strong emphasis has been placed on a stringent application of credit methodology, including extensive training, clear checks and oversight, and immediate action against defaulters.

FIGURE 8. TARGETING WOMEN THROUGH PRODUCT AND PROCESS DESIGN



As noted above, over 78 percent of women entrepreneurs operate businesses in the service sector and experience the challenges that come with a more informal business. In focus group discussions, women noted in particular the difficulty caused by insufficient credit history, a cash-based business, and the lack of access to collateral in their name. They also noted the importance of receiving sufficient funding, particularly when the loan is for purchasing equipment or machinery, and of flexible repayment terms.

Swadhaar MSME's unsecured products and discussion-based assessment are intended to alleviate these challenges and remove barriers for women entrepreneurs seeking to access credit. A broad range of loan sizes helps to ensure that clients receive the funding they need. To further incentivize potential clients, the BC also introduced a 2 percent interest rate discount for women clients.

CONVENIENT CHANNELS

MSME clients run complex businesses, and have very little time to travel to a bank branch or complete substantial paperwork. Swadhaar offers several critical channels and points of service intended to facilitate ease of access for their clients:

- **Wide branch network** – Swadhaar MSME started operations with nine branches in eight locations in Tamil Nadu, a state selected for its good infrastructure, access to markets, and a high prevalence of MSMEs. Branches were established in hubs with a high density of MSME activity to

allow for easy walk-ins and inquiries, and are run by a small team exclusively dedicated to the MSME loan product. Branches are professionally designed, with clear signage that reflects Swadhaar's branding and highlights the backing of RBL Bank.

- **Door-to-door sales** - The primary channel for MSME customer acquisition is door-to-door sales, which Swadhaar has found the most effective way to reach busy entrepreneurs. Branch areas are zoned to ensure that Swadhaar can reach all MSME businesses in the geographic areas where it operates, and relationship officers spend 70 to 80 percent of their time in the field, with the goal of contacting 12-15 MSME clients per day. Swadhaar has also leveraged 'umbrella' marketing campaigns, in which relationship officers set up a branded umbrella in an area with a high concentration of MSMEs to pass out flyers and address questions.
- **Digital channels for disbursement and collection** – Swadhaar has adopted efficient, low-cost channels for routine transactions. This includes cashless payments for disbursement and collection:
 - o Once approved, loans are disbursed directly into an account as designated by the client (either RBL Bank or another bank) within two to four days. The client will receive an SMS message notifying them that funds are available, and can access them immediately.
 - o Repayments are done through direct debit from the same bank account, removing the need for branch staff to physically collect repayments. RBL Bank monitors repayment status and generates overdue reports, and Swadhaar follows up directly and immediately on late payments.

FIGURE 9. TARGETING WOMEN THROUGH APPROPRIATE CHANNELS



Women entrepreneurs value a capable and confident field officer who can provide personalized support and guide them through the financial products and services suitable for their business. In focus group discussions, clients noted a dedicated relationship manager who understands their business and financial requirements was more important to them than product pricing.

Swadhaar's door-to-door sales model takes a customizable approach to ensure customer understanding and satisfaction. The sales team is extensively trained to educate the prospect and gradually introduce the portfolio of products, and to ensure that all visits are handled professionally and courteously. Training also includes an important gender sensitization component to enable the BC to specifically target and encourage women-owned MSMEs to apply. Recently, Swadhaar has hired female relationship officers in several of its branches. While these relationship officers do not work exclusively with female entrepreneurs, they reflect a broader effort to better serve this target population.

STREAMLINED OPERATIONS

Innovations in technology and business models offer an important opportunity to optimize operational efficiencies and better serve MSME customers. Over the next few years, Swadhaar plans to roll out several initiatives intended to increase efficiency, decrease turnaround time, and promote growth and expanded access for MSMEs:

- **Digital information capture** - Swadhaar is in the process of piloting a digital field application (DFA) – a handheld technology that will allow relationship officers to digitally capture client information (including business data and photos of collateral) during the evaluation. This information can then be accessed by staff or sent electronically for processing, analysis, and approval, eliminating the need for paper-based forms or manual data entry into the system. DFAs streamline the

evaluation and approval process, reducing turnaround time and increasing efficiencies – which is particularly important in a human-intensive door-to-door model. They will also facilitate access to a broad pool of client data – allowing Swadhaar to better understand client profiles and proactively find ways to service their credit needs, and allowing management to design and deploy credit tools like scoring tools (see below).

- **Expert scoring methodology** - Swadhaar is in the process of developing an expert scoring methodology which can be used to aid lending decisions for new clients, in particular for unsecured loans. The scorecard was built based on the risk assessment of experts at Swadhaar, and will be back-tested with sufficient client performance data. These scores leverage profiles from existing customer data. An additional methodology is being built that will leverage credit bureau behavior.
- **Specialized staffing and comprehensive training** - Swadhaar MSME deploys a 'lean branch' model in which staff specialize in certain activities, such as sales or credit evaluation. This allows Swadhaar to staff positions according to specific skill requirements (using less specialized/lower cost staff for sales, and more specialized/higher cost staff for evaluations). There is also no separate administrative staff at the branch level, which helps to keep costs down. This approach, which Swadhaar has deployed previously, is essential to reach a wide geographic presence economically. An innovative assessment methodology and focus on door-to-door sales requires highly trained and skilled staff. Onboarding is designed to bring new hires quickly up to speed on Swadhaar's products, policies, and processes – the training spans seven days and is led by experienced credit and sales staff to ensure the standardization of delivery and the consistent application of credit policies. All content includes case examples from real case files, and all new hires spend time in the field shadowing peers to ensure theory is grounded with practical experience and hands-on learning.

Key Lessons Learned

By the end of September 2016, Swadhaar MSME had grown to 1,820 active clients serviced through 18 branches in two Indian states. Outstanding portfolio was Rs. 28.9 crores with zero PAR 30+. Nine months of experience provided valuable experience and critical lessons for the Swadhaar MSME management team, particularly with regards to targeting women entrepreneurs. 15 percent of active clients are women that own and manage their own business – a significant number, especially when compared to the internal MSME product of RBL Bank (which averages four to five percent women clients) and other MSME lenders in the market (which may be as low as three percent).

As noted above, Swadhaar's business model includes several components designed to address challenges facing women entrepreneurs – unsecured loans, customized discussion-based assessment, door-to-door sales with a personalized approach, attractive loan pricing and terms – which helped the institution attract over 275 female clients who own their own enterprises. However, even finding potential clients proved to be a challenge. Truly 'women-owned' MSMEs are rare in Swadhaar's area of operations – many women applicants are actually co-applicants who facilitated access to credit for their spouses.

Swadhaar also identified other key lessons learned:

1. PARTNERSHIP IS KEY TO QUICKLY BUILDING A SCALABLE MODEL

The experimentation and innovation required to set-up a BC to effectively reach MSMEs requires above all a very strong and trusting working relationship between partners. From the beginning, Swadhaar and RBL Bank management met regularly to discuss their vision for the new vertical. RBL Bank seconded three of their senior managers full time to help implement the vision and ensure integration and synchronization with RBL Bank processes and systems. This focused leadership

“Overall, the partnership has been a success. Swadhaar is now well positioned as the engine of growth for the MSME sector of RBL Bank, through which we can expand to new geographies and offer additional products as a financial services supermarket for the target segment.”

– Madhan Mohan, COO and Head, Swadhaar MSME

was critical to achieving the vision. The partners design operational policies through an iterative process to ensure that they address all concerns and fully leverage group expertise.

The BC also benefited from the partnership with Accion, which provided expert resources and full-time management staff to support Swadhaar's senior management. Accion brought global experience with MSME lending, and helped guide strategic design of MSME-oriented products and policies offered by the BC. Accion and RBL Bank both own large stakes and sit on the board of Swadhaar. The shared investment and governance roles help to align the interests of all parties towards the core business objective of Swadhaar – to profitably serve the MSME sector.

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2. CUSTOMIZED PRODUCTS AND PROCESSES ARE IMPORTANT TO REACH MSMEs

Swadhaar found that the customized products and processes (unsecured, customized discussion-based) developed proved to be more effective in reaching MSME clients than traditional banking methodologies – and in many cases opened up a customer segment that they couldn't otherwise have accessed.

- Swadhaar had initially targeted a portfolio mix of 60 percent secured and 40 percent unsecured loans, but quickly found the unsecured loans to be more popular and more useful for their MSME clients, especially women. Clients found the working capital product to be more appropriate for meeting immediate business needs and taking advantage of sudden discounts. The portfolio now sits at 80 percent unsecured loans and 20 percent secured loans
- Branches deploying the customized discussion-based methodology had high uptake and reached more clients than projected. This methodology was also more efficient, as relationship officers had to spend less time collecting and verifying documents. Based on this success, Swadhaar has decided to roll out this methodology in branches with more than six months vintage and for loan amounts up to Rs. two lakhs.

3. A ROBUST EVALUATION PROCESS IS CRITICAL TO MAINTAIN PORTFOLIO QUALITY

Swadhaar has been able to maintain a very strong portfolio quality due in large part to management's focus on thorough evaluations and on-time collections. In lieu of formal documentation, the evaluation process includes a number of steps to assess willingness and capacity to repay, including both an initial screening by the relationship officer and a detailed discussion with the branch credit officer,

credit history and reference checks, and multi-level credit committee with approval authority linked to loan size. Swadhaar has also established a strong delinquency management system with pre- and post-disbursement activity, financial literacy training, and escalating follow up. Senior management regularly communicates with staff about the importance of maintaining a high-quality portfolio via branch visits, review meetings, and approval emails.

Through its technical partnership with Accion, Swadhaar is developing a credit monitoring toolkit to manage potential delinquency based on risk factors and analytics. This will enable branch managers to identify trends and patterns among delinquent clients, and direct resources to prevent delinquency and protect portfolio quality.

The process and tools outlined above are particularly important for a BC company that is working on behalf of a formal bank that may be uncomfortable with a more flexible and open assessment process. As noted above, the strong emphasis on delinquency management (and corresponding low PAR) helped to build RBL Bank's comfort with the methodology required to reach a market without a lot of documentation.

4. THE RIGHT HUMAN CAPITAL PROVIDES THE FOUNDATION FOR GROWTH

Since starting operations, Swadhaar has had difficulty recruiting the right credit staff for its MSME branches. There are often not enough qualified applicants at the right time and in the right place – particularly in the smaller cities where the BC is operating. Those who are qualified often use an offer to 'shop around', and frequently receive a better counter-offer from their current employer. Swadhaar is also currently only able to offer a compensation package at the mid-range of the market.

7.0

Looking Forward

To address this, Swadhaar starts the recruitment process two to three months prior to opening a branch. Recruitment efforts stress the social mission, and offer new hires additional responsibilities that build connection with the institution. For example, mid-level managers are hired before branch staff, and are made responsible for establishing and staffing the branch and training new staff. The senior management team is also directly involved with recruitment, and travels extensively to lead interviews in each cluster branch location. The partnership with RBL Bank has served as an opportunity to attract staff, who see long term potential to work with a larger commercial bank.

5. DESIGNING THE RIGHT TECHNOLOGY PLATFORM TAKES TIME AND LEADERSHIP

Swadhaar intended to launch with ‘paperless’ lending operations – all processes would be done through a DFA, with almost no paper forms. The team had identified a local vendor to lead the process, and hoped to be able to roll out the DFA for the first loan. However, after initial testing, it became clear that the DFA would not be ready in time. While the vendor had deployed a DFA before, it was a much simpler solution that lacked the complexity required for assessing and lending a set of secured and unsecured credit products. This lack of experience led to unanticipated problems in the user-testing phase.

Swadhaar ultimately ended up using paper forms, but has continued to work on the development of the DFA. The vendor relationship is led by Swadhaar’s head of Product Development & Strategy (a seconded manager from RBL Bank), who brings a deep understanding of the current credit process and policies and the ability to make adjustments as needed to suit the DFA interface. Given his background and role, this manager is also able to effectively represent the system needs of both Swadhaar and RBL Bank. Swadhaar has also had six months to test out and adjust its credit processes, and has a better sense of what might be the best way to integrate a DFA.

Looking forward, Swadhaar will continue to gather feedback from women entrepreneurs and refine products and processes to attract new and maintain current female clients. In particular, the team will look to roll out financial education and marketing events that target women entrepreneurs and encourage participation in the formal financial sector. This education is critical to encouraging female entrepreneurship and building their capacity to manage risks and leverage capital to bring businesses to scale. To date, female clients have sought help in business development, building market linkages and expanding professional networks, and focus group participants commented on the value of a ‘marketplace for business networking and workshops on financial products’.

Swadhaar has extensive experience in running client education programs for microentrepreneurs through an affiliated non-profit entity, and will design events that build financial know-how and peer relationships.

Pending the results of the pilot, the team also plans to roll out the DFA and transition to a paperless workflow. Beyond inputting customer data, DFAs will provide relationship officers with polished sales materials and digital testimonials, analytics to categorize new clients, and scoring to offer speedy approvals for qualified prospects. These tools offer enormous potential to help the client, the relationship officer, and the institution:

- The client will benefit from improved educational material and a quicker turnaround time
- The relationship officer will be able to provide immediate client-specific feedback and terms, resulting in a higher client conversion rate
- The institution will benefit from a reduced customer acquisition cost and the ability to leverage customer data to drive product and process innovation.

The vision that Veena, Abhishek, and Rajeev discussed back in 2014 continues to demonstrate significant potential for impact. Given the positive results to date, Swadhaar and RBL Bank recently updated the Swadhaar MSME business plan to promote increased growth over the next few years, with an expansion to 100 branches in six states by the end of March 2019. Clients are expected to grow to 70,595 through a loan portfolio of Rs. 8,698 million. Targeting women-owned MSMEs will remain a core part of Swadhaar and RBL Bank’s strategy and vision as they look to expand to new regions. Based on the success of this model, RBL Bank is now looking for additional ways to leverage business correspondents, and deepen its relationship with Swadhaar.

The MSME sector is a critical segment for the country as a whole, and especially for institutions working towards financial inclusion. As the financial landscape of India evolves to include new regulations and market entrants, institutions must continue to innovate and test out new models to effectively serve MSMEs in general and women entrepreneurs in particular. The Swadhaar and RBL Bank partnership showcases one approach that can inspire other players looking to serve this market.

About This Paper

Accion would like to thank the management of Swadhaar FinServe and RBL Bank for their partnership and contributions to this brief.



This pilot was made possible through the support of Goldman Sachs 10,000 Women. Since 2008, the Goldman Sachs 10,000 Women initiative has helped foster economic growth by providing women entrepreneurs in 56 countries with business education and access to capital. The initiative is now expanding to reach up to 100,000 women through a first of its kind global finance facility launched in partnership with International Finance Corporation to increase access to capital for women entrepreneurs to grow their businesses.

This paper was written by Accion's Global Advisory Solutions team, which provides experienced operational and management support to strengthen our partners and maximize their impact. We leverage innovations to increase the quality and lower the cost of financial services, and thus help to build sustainable and scalable institutions focused on serving the financial needs of underserved individuals and small businesses.

ENDNOTES

- ¹ Indian Ministry of Micro, Small and Medium Enterprises
- ² Research conducted by GIZ in 2012
- ³ <http://msme.gov.in/mob/FAQ.aspx>
- ⁴ IFC Report on Improving access to finance for women-owned businesses in India (2014)
- ⁵ <http://timreview.ca/article/921>
- ⁶ <http://www.ifc.org/wps/wcm/connect/a17915804336f2c29b1dff384c61d9f7/Womenownedbusiness1.pdf?MOD=AJPERES>
- ⁷ IFC Report on Improving access to finance for women-owned businesses in India (2014)
- ⁸ Qualifying assets are loans to borrowers with a rural annual income under Rs. 60,000 (US \$895) and or a semi/urban annual income under Rs. 120,000 (US \$1,791) - <http://mfinindia.org/wp-content/uploads/2014/06/43BF010714FSC.pdf>
- ⁹ <http://www.ifc.org/wps/wcm/connect/a17915804336f2c29b1dff384c61d9f7/Womenownedbusiness1pdf?MOD=AJPERES>

ACCION

Accion is a global nonprofit dedicated to building a financially inclusive world with economic opportunity for all, by giving people the financial tools they need to improve their lives. We are building the next generation of top-tier microfinance institutions, and over more than 50 years have helped build 65 such institutions in 32 countries on four continents that today reach millions of clients. Our impact investing initiatives are pushing beyond microfinance to catalyze more than 30 innovative start-ups dedicated to improving the efficiency, reach, and scope of financial services for the poor. And our Center for Financial Inclusion is helping to build a stronger industry with high standards and broad engagement. Currently, our work spans nearly two dozen countries, including the U.S., where we are the nation's largest nonprofit microfinance network. For further information, visit <http://www.accion.org>.



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