

CHAPTER

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*The financial ordeals of a woman led start-up in India -
A case study*

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INTRODUCTION

The primary objective of this paper is to explore financing options available for women entrepreneurs in India, by considering *the first-hand case of a woman entrepreneur in Delhi, Ms. Annie Malhotra (name changed) who started a block-printing and dress material business in 2019. This study explores her business model, financial settings, means adopted to procure finance for the business, issues she faced while arranging finance for her business and how they were overcome. This paper can guide enterprising women on plausible financial issues and how to deal with them, thereby helping reduce the chasm between female and male entrepreneurs in the society.*

To understand her story, it is imperative to understand the landscape of woman-led enterprise in the country as a prerequisite.

India is home to more than 3 million enterprises that are owned by women, but the bulk of these enterprises are confined to small, medium, and micro enterprises. It is estimated that nearly 80% of these ventures are set up to the service sector. Most of these businesses require low skill, education, and technical expertise. A very small fraction of women occupies board level positions, and even lesser, 'C' level designations in large corporates – let aside owning large professional, firms.

Besides social and cultural factors, one of the main reasons for the above anomaly is the presence of gender centric issues like institutional barriers and lop-sided policy frameworks. Lack of market as well as institutional finance prevents Indian businesswomen from taking bigger, challenging initiatives and harms the viability of their businesses.

Women generally have an excellent loan repayment history, and they are good long-term clients. Financing women-led enterprises is a great opportunity for banks and similar financial institutions, given, the number of businesswomen in the country is increasing rapidly. Realizing the potential of women entrepreneurs, the Government as well as the private sector have launched several financing schemes to empower women.

Some of these shall become evident as we discuss the case, in this paper.

BUSINESS MODEL OF THE START-UP

Annie had always been a very creative, yet resourceful person since her college days. She was well appreciated for her innate sense of design, eye for colours and the capability to create beautiful patterns on both paper and fabric. She graduated in textile designing from Dayalbagh Educational Institute, Agra. Her dreams, determination and ambitions had always been high, though she led a suppressed life as a homemaker for a couple of years post marriage. However, later, the necessity to augment finances in her home reignited her passion to start an enterprise of her own.

Annie decided to set about doing what she was best at - developing beautiful, unique patterns for block printing on dress material. She set up her venture on a sole proprietorship model with the

moral support of her husband and sister. Initially, she decided to keep the scale of business very small. Humble beginnings were made by requesting for some space in her maternal uncle's shoe factory in Faridabad for a short-term basis. Earnings from this small initiative she felt, would be sufficient to fund her rentals later. Faridabad also offered cheap labour to Annie who kept a very lean staff to produce the bare minimum stock necessary for her initial financial goals, which were equivalent to her cost, plus a markup of hardly 10-15%. The idea was to keep the selling price low initially, for a price advantage over competitors in the market.

Annie purchased fabric rolls in bulk from wholesale stores in the fabric markets of Sarojini Nagar, Amar Colony and Lajpat Nagar in Delhi, by making minimum investments, as deemed necessary. How she arranged capital for buying the fixed assets and meeting her operating expenses is what we shall discuss in the upcoming sections.

The business thus, became operational - customers being converted initially from the contacts which Annie had, by the way of her friends in the colony where she resided, ladies she met in her child's school and an institute where she had been doing some voluntary service. Annie then visited several showrooms in Malviya Nagar and malls in Gurgaon, showcasing some samples of the suit pieces, sarees, and the dupattas which she had designed. Gradually, demand grew because her unique designs became popular with customers, who placed repeat orders for similar products. Annie roped in more partners for marketing to showrooms across Delhi. Her business has expanded and diversified today, into areas like creating dress materials with stitching, embroidering, and running boutiques to provide tailoring services along with the printed fabric. She is looking forward to an online presence in near future.

FINANCING CHALLENGES – THE INITIAL HICCUPS

a. **Shortage of Fixed Capital** - Women entrepreneurs in India mostly operate in the informal sector because of the need for flexibility of time. The mode of entrepreneurship is sole proprietorship or single ownership. Annie had a dire need to maintain a work life balance, as she had a big share of responsibilities in her family and needed to devote a considerable amount of time to the home, along with business. Thus, formal financial institutions and banks hesitated to finance Annie's informal venture because they felt it was categorised by lack of transparency, credibility, and structure.

b. **Ignorance of banking procedures, poor financial literacy** -Though Annie was a creative genius, she did not possess a thorough knowledge of banking and lending processes. Consequently, she found it difficult to take advantages of the myriad financing schemes by the Government or banks. This created a great credit constraint for her.

c. **Inability to offer collateral and securities** – Annie had a poor credit history and found it difficult to arrange for requisite collateral to utilize good financing options. The inheritance and property rights/laws/practices in most Indian communities (like Hindus, Muslims etc.), are biased against women. After her marriage, Annie had no ownership rights of any major assets in her

maternal family or in her in-laws' place, and was therefore, unable to meet the demand for collateral in availing formal credit.

d. **Bias and negative attitude of the bankers** - Owing to a deep seated social and cultural prejudice against women in India, Annie faced an obvious gender discrimination in the banks. She was turned down at many places where she knocked the doors of financial institutions for funding her venture, compared to their male counterparts in similar financial situations, by money lending institutions, either wantonly or unknowingly.

This can perhaps, be explained by the following rationale - women in India face complex physical, social barriers and mobility issues in accessing credit or hired labour. In many cases, they behave like mobile citizens, following their husbands to whichever station they move. This creates a negative perception in the bankers' mind, hampering the business lives of women entrepreneurs. Their enterprises are thereby, forced to remain small and less profitable, reducing their credit worthiness.

e. **Self-exclusion** - Prolonged oppression in the patriarchal Indian society has affected the psychological framework of Indian women to such an extent, that they tend to take the rejection of credit applications as a normal, and do not protest the apparent gender discrimination, leading to self-exclusion from the credit market. Similar was the case of Annie, who after an exhausting search for funding finally gave up on formal financing institutions. Instead of registering complaints against this apparent injustice, she decided to procure capital from informal sources.

f. **Social Issues** -In many sections of society, specifically scheduled castes, or tribes, and in this case, even in Annie's community, women hardly utilize business training programs or financing schemes to their benefit because of the strong stigma involved in social interaction with outsiders in their communities. Annie, despite having a desire as well as acumen for business, had very less opportunity to learn about financing methods before she took the plunge, defying all social barriers and taboos to go ahead with her dream venture.

g. **Gender barriers** – In the initial months of starting her venture, Annie felt uncomfortable dealing with loan officers. She realized that the male executives of the banks were gender-insensitive and unaware of the typical psychological or social barriers faced by women entrepreneurs. Hiring of female staff and gender sensitization of executives in financial institutions through relevant workshops or training programs is important to mitigate such problems.

h. **Information asymmetry** -Although Indian policymakers have taken several initiatives to improve the credit situation of women entrepreneurs, the key issue of information asymmetry remains i.e., Potential beneficiaries are unable to receive information about such schemes, well in time - either due to lack of awareness or because the schemes are not publicised well enough. Annie was more than willing to avail credit, but the details of public financing schemes dawned upon her very late.

i. **Relationship lending** – This is a culturally accepted, and popular practice in India. Annie was motivated enough, to seek financial assistance from formal channels partly because she wanted to avoid paperwork and incumbent delays.

n. **Shortage of Working Capital** - It has been seen in India that besides lack of long term or short-term financing, working capital was also unavailable to Annie at a short notice. Quick disbursement of loans is very important in a business for procurement of raw materials, payments to creditors, suppliers etc., because it might endanger the very existence of the business. Delayed sanction of loans to women entrepreneurs affects their business adversely and Annie was already aware of this issue.

o. **Red-Tapism and Bureaucracy** - it is a known devil that most government departments have sluggish implementation of financing schemes and credit policies. Annie was a sole proprietor of her business and had a huge burden of entrepreneurial responsibilities to shoulder. She did not have the time to waste on waiting for financial approvals or taking rounds of government offices. Hence, she desisted from applying for government funded, public credit schemes.

p. **Inadequate fund size**-Some lenders were willing to provide Annie a small start-up capital but not large enough for accelerated growth prospects, because they were heavily regulated and did not prefer to fund risky ventures. Lack of sufficient collateral was also one of the factors for release of insufficient funds.

FUNDING THE ENTREPRENEURIAL DREAM

LOANS FROM BANKS

For all the reasons mentioned above, Annie was unable to arrange for finance from formal sources like public schemes, non-banking financial institutions or banks to start her enterprise. The only source of capital which she had, to launch her venture, were savings from her husband's salary and some money which she could borrow from her friends or relatives.

Although we saw earlier that obtaining funds from banks is a difficult option for women in India, nevertheless it IS the best option. Banks can provide a lot of capital for growth and development of business. The key to getting loan applications approved by banks is preparing a perfect business proposal that banks cannot decline. Annie understood this very well, and with the passage of time, learnt to write her applications in an impressive way, detailing the future cash flows as well as the repayment plan.

Things became better after 2 financial years had gone by. With operating profits being shown on her income statements for both the years, Annie could now persuade some of the banks and non-financial banking agencies to lend her capital. Even in this situation, banks were not ready to fund Annie's raw material cost, but only to offer her loans against her assets, because of the high risk involved in her business.

In two years, Annie was able to learn and understand many schemes from GoI, banks and other institutions that could help her avail credit. Annie sought and received various types of loans from banks and financial institutions, some of which are meant to support women entrepreneurs. Some of these were:

a. SME loans

SME loans are meant for existing, small to medium scale businesses but sometimes they include funding for women-led start-ups as well. The biggest advantage of this scheme is that while repaying the borrowed amount, one needs to pay interest on the actual amount used and not the entire credit value. There are many different types of loans available to choose from and the interest rates are quite affordable. The funding is secure, and the mechanism is apt for financing short term needs of businesswomen like Annie.

b. Commercial business loans

These loans are meant for existing, medium scale businesses only. For women, these loans do not require any security. In this case, many banks allowed instant application and approval for such loans with minimum documentation, for Annie. However, valid business proofs showing its profitability for at least a year were required and having a current account was mandatory. Prepayment facility was available. Since Annie now had some security to pledge, the loan amount was increased. The tenure for such loans was 3 to 5 years and the maximum limit was less than ₹50 lakhs.

c. Loans against Securities

For businesswomen like Annie, who want to start a small business, this is a good option. Such loans involve a lot of documentation, specially proof of ownership of securities pledged. However, the eligibility requirements are minimal. Annie pledged securities in the form of some gold jewellery she had from her dowry and some life insurance policies wherein her husband had invested in her name. The amount of loan offered was 60% to 75% of the market value of investments as mentioned above. The interest rates of such loans were also lower than other business loans and tenure was less than 5 years.

d. Personal Loans

Personal loans are unsecured loans offered based on the applicant's eligibility, for example, credit score or monthly income. These loans belong to the most flexible category of loans. They can be used for both personal and professional purposes. Annie used an option to include her spouse as co-applicant to ask for an increase in the loan amount being sanctioned. Most banks allowed online applications for these loans, and the tenure for these loans was less than 5 years. The maximum loan amount was well below ₹50 lakhs.

CREDIT LINE

Annie used an alternate financing option, that is a credit line in emergency situations, when she needed working capital to meet her short-term obligations and loans etc. were taking long to come by. A good credit line can generate enough capital which might be repaid over a long period of time. A secondary advantage of using credit cards is improvement in credit rating - provided the amount is repaid within time. The option of using a credit line is an expensive option because it is somewhat like a short-term loan. If the instalments/ bills are not made in time, it can cause grievous penalties and losses.

GOVERNMENT SCHEMES

As a part of their women development initiative, the government of India offers several financing schemes which have very low eligibility requirements. They also require a very low rate of interest. Several banks and financial institutions partner the government in this endeavour. However, these schemes are meant for a short tenure of 3 to 5 years only.

Annie applied for funding under the Pradhan Mantri Mudra (Micro Units Development and Refinance Agency) Yojana, which is perhaps the most popular business loan scheme for women by GoI. It has 3 variants for both start-ups (Shishu) as well as existing (Kishor and Tarun) businesses. The Shishu option authorizes loan amounts up to ₹50,000 while the other two options permit borrowing up to ₹10 lakhs.

Annie had applied for the Shishu option, but it was not much of a utility, because her application was rejected by banks grounds of the business proposal being weak.

Annie also thought of applying for credit under the Enterprise Program or Mahila Udhyaami Yojana of SIDBI (Small industrial Development Bank of India), where women entrepreneurs can get an interest discount of up to 0.25% on their business loans. However, her unfavourable experience with the Mudra scheme deterred her from going ahead with this option.

INDIRECT SUPPLIER FINANCING

With the growth of Annie's venture, relationships with her suppliers became very good and she could convince them provide her raw material on credit. Then she would defer the payments to suppliers to shorten her cash conversion cycle. Meanwhile, she would either not extend credit to her customers or collect her receivables very quickly and re-invest the money collected immediately to run the business for the next cycle. This helped her in debt repayment and additional purchases, practically, her business was being financed by her suppliers indirectly.

INVOICE FINANCING

As the name suggests, this method of availing credit involves providing unpaid purchase invoices as collateral to the bank for short term loans. This option helped Annie to keep investing in raw materials she needed for her business without having to wait for her account receivables to translate into actual cash. Annie would borrow from banks against the amount that was due from her customers to meet short term liquidity requirements of her business, such as purchase of fabric, dyes, payment of salaries to her staff and other operating expenses.

CONCLUSION, WAY FORWARD

Annie's story re-affirms the well-known fact that for start-ups, self-financing is still the most preferred, and often the only feasible financing option. Although the government, banks and non-banking financial institutions do promise a lot and come up with different schemes now and then, but to the needy, either the word of these schemes does not reach or even if it does, their business cases are so weak that they are unable to avail any credit from such schemes. The situation is worse for women entrepreneurs who often face discrimination, bias, and harassment amidst other social and cultural issues to arrange finance for their businesses, a fact that is hushed up by both banks and the governments for salvaging their own interests and reputation.

For most entrepreneurs, arranging for initial capital is the most difficult part - the situation improves once the business is operational, relationships are established with suppliers and creditors, and operating profits are visible in the financial statements.

The governments in India must take measures to improve the financial literacy of women in the country specially rural areas, if we must succeed as a global economic power. Deep rooted social cultural, communal, and other factors contributing to gender bias in financing can be eliminated only through more and quality education, which is perhaps the only solution for all such ills.

Launching financial schemes to provide credit is not enough, the genuine recipients should come to know about it. Awareness campaigns about such credit schemes are important and so are background checks to ensure that money is given to those for whom it is intended and not to unscrupulous people or frauds.

Some recommendations which have been suggested by the International Finance Corporation, World Bank group, for supporting Indian women entrepreneurs financially, are being listed below:

RECOMMENDATIONS FOR THE GOVERNMENT

- a. Risk sharing, creation of risk capital funds to encourage the banks and financial institutions to fund businesswomen in India
- b. Changes in laws and amendments in regulations are expected from the government, related to property and inheritance. Involvement of women in property registration and equal rights in inheritance would resolve collateral issues for many businesswomen in India
- c. Simplification of the collateral regime specially for women and development of credit guarantee schemes to help women in the absence of collaterals
- d. Creation of women focused policies related to industrialization and financing
- e. Creation of online support facilities to provide counselling to women in critical financial decision making like business planning, financial management, working capital management, input/raw material purchase, etc.

RECOMMENDATIONS FOR BANKS AND FINANCIAL INSTITUTIONS

- a. Provision of a friendly environment for women entrepreneurs, for example, training of relationship managers and staff in displaying a courteous behaviour towards women, hiring of more female managers to make women comfortable

- b. Providing customised products and services tailormade to meeting women's credit needs in India
- c. Doorstep delivery of financial services
- d. Simplification of approval and sanction processes
- e. Tie -ups with the government, NGOs, and other self-help groups to reduce the burden of providing cheaper finance to women entrepreneurs
- f. Improvement in online telephonic and mobile services
- g. Removal of the requirement of having male members in the family as signatories for securing access to finance
- a. Organising workshops, seminars, campaigns and training programs to create an awareness of the financing schemes amongst women entrepreneurs in cities as well as rural areas.

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