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# Cambridge FinTech & Regulatory Innovation: Project Proposal

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Project Title: Empowering Women MSMEs through Fintech Solutions



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# Topics

- Module 1: Innovation and regulation
- Module 2: Deconstruction Banking
- Module 3: Digitising payments
- Module 4: Digital assets
- **Module 5: Digital lending and capital raising**
- Module 6: Innovation offices and regulatory sandboxes
- Module 7: Regulatory Technologies



# Selected Discussion on Digital Lending

1. Digital Lending (FinTech credit) is defined as activities facilitated by platforms to match borrowers and lenders (investors). One main model under this is peer-to-peer (P2P) lending.
2. Two Learnings
  - Identify the actors within the FinTech credit ecosystem
    - Borrowers (consumers), Lenders (individuals & institutional investors), Platform
  - The regulatory and policy implications
    - P2P lending business model- consumer lending, business lending and property lending
    - P2P lending is less likely to be regulated: where it is regulated, the regulators' priority is to shape it into a moderately risky activity suitable for individual investors and to ensure responsible lending standards are upheld.



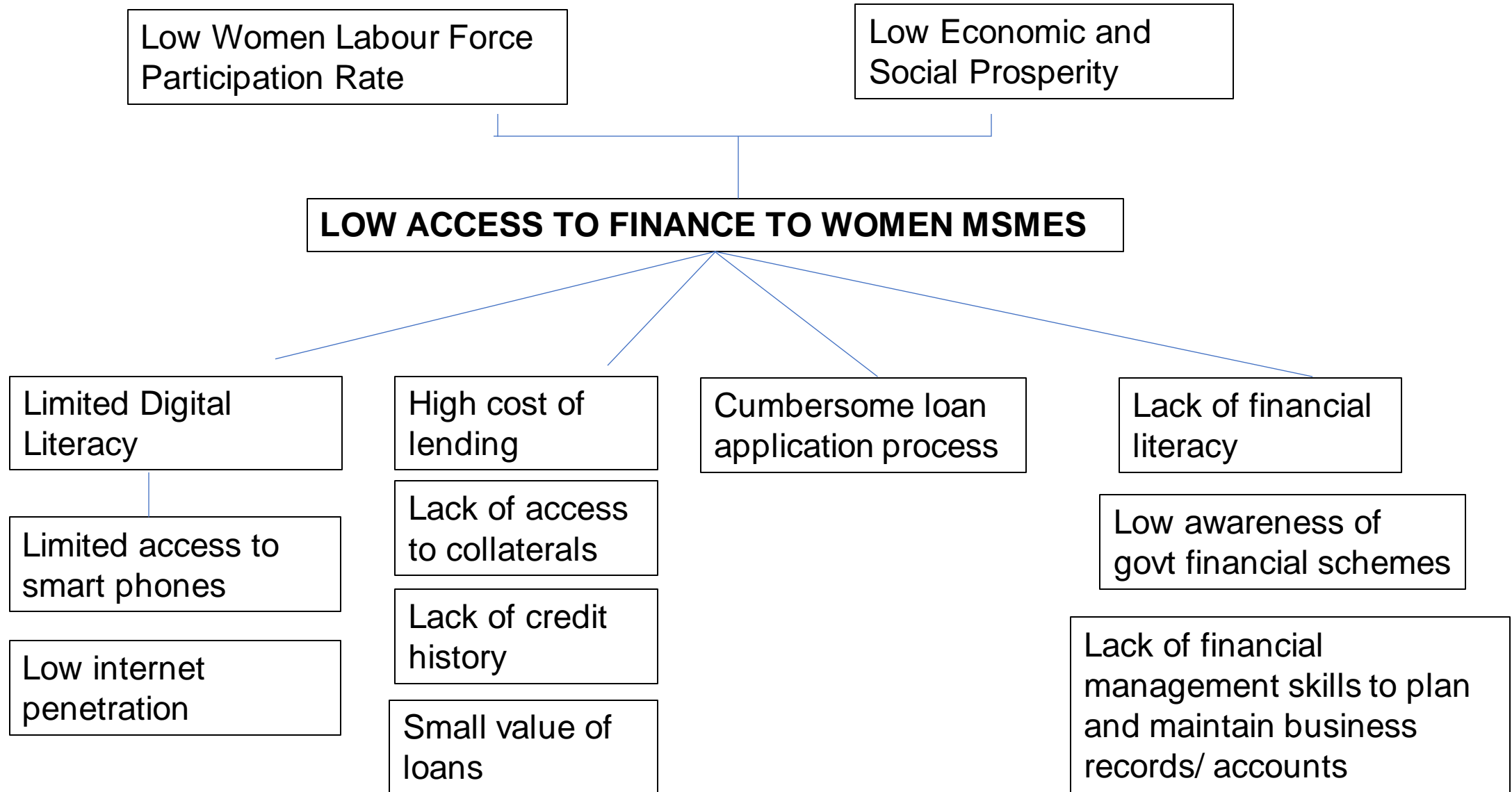


# The Context

- Gender inequality in India, defined as low and falling women participation in labour force and high unemployment, is a major social issue.
  - The problem for women got aggravated during COVID-19
- Promoting women entrepreneurship in India is key given its positive socio-economic impact
  - MSMEs constitute a big proportion of enterprises in India: while 95% of these are micro-enterprises, the share goes up to 98% if it is led by women.
  - During COVID, women-run enterprises were badly hit, and nearly 40% of them faced closure
  - Access to finance, poor awareness of financing schemes, longer wait for credit are major hurdles



# Problem Statement



## Impact of Covid 19 on Women MSMEs: The issue of inequality got aggravated in India during the COVID-19 pandemic.

- The MSME sector was one of the worst hit during the lockdown. Over 50% of MSMEs witnessed a 20%–50% decline in their earnings.
- In India, women MSMEs are concentrated in few traditional sectors - 35% in personal services, 31% in apparel and textiles and 15% in food and other services. Their ability to diversify is severely constrained due to a pervasive digital divide – in an increasingly digitized world. Only 29% of female account holders use digital payments, against 42% of male account holders.
- The impact on women-owned enterprises was much worse – 82% reported shutting shop in March under lock down, of which nearly 40% indicated not intending to resume operations again.
- Pre-existing barriers in finance, skill training, and market access have been exacerbated.
- Women-led enterprises have been hit hard financially too, with 72% reporting a drop in revenue and 88% utilizing personal savings to meet working capital needs.



## Objectives and Government of India's Initiatives

- The **objectives** of the project is to strength women-led MSMEs with access to low-cost finance.
  - ❑ Other services to be strengthened- tailored knowledge and capacity building, skills development, backward-forward linkages partnering with e-commerce platform and networking channels.
- This project is in line with **ADB's two operational priorities** - accelerating progress in gender equality and addressing poverty and inequality.
- This project is also in line with **Gol's regulatory initiatives**
  - ❑ To support entrepreneurship and self–employment: Standup India, Pradhan Mantri Mudra Yojna (PMMY), Women Entrepreneurship Platform (WEP)
  - ❑ Atmanirbhar Bharat Package in 2020- INR3 lakhs crore of collateral-free automatic loans, revision of MSME definition
  - ❑ To promote Fintech based solution- Goods and Services Tax (GST), Digital identity and signature (Aadhar card), Jan Dhan Yojana (bank account for all), digilocker (for storing documents), Unified Payments Interface (digital payment across banks), digital-KYC (by video), Digital lending initiatives (formation of peer-to-peer (P2P))





# Solutions

- Propose to support (a) undertake upstream analytical work on developing innovative financial products (including P2P lending and cluster financing) to help improve access to finance to low-income, semi-urban and rural women MSMEs in unorganized sectors, (b) to undertake pilot projects in two women dominated MSMEs clusters in the select states (e.g. Maharashtra, UP, West Bengal, Tamil Nadu)
- The proposed financial products under consideration, as appropriate, includes
  - **P2P lending** – market place model, which allows individuals to connect and lend to other individuals, based on risk profiling and credit assessment. There are 350+ fintech lending companies in India, all regulated by RBI.
  - **Cluster Financing** – Cluster based approach is extending banking services to recognized MSME clusters.
- Implementing the pilot projects in coordination with the State governments, associated district industry centers and cluster institutional structures.
- With Proof of concept, considering learnings and challenges, we can scale up the pilot projects to more women-led MSMEs in other States/MSME clusters
- Financial inclusion is an important part of Gol's pro-growth economic policy measures and initiatives. Financial inclusion can pave the way for poverty reduction, financial stability and economic development for all sections of the society. Further, It's a new area of ADB's intervention and involves innovative solutions, diverting from ADB's core areas of transport, urban, energy and agriculture infrastructure.



# Risk Assessment

## Key Risks to the proposal and implementation

- Given the COVID-19 situation, women's role as caregivers and household managers have gone up. This may result in low willingness of women to participate in the pilot program.
- Low access to smart phones and low internet penetration
- Low active women bank accounts

## Mitigating Measures against the specified risks

- The Technical Assistance (TA) will allocate budget for procuring smart phones with low-cost mobile data plan.
- The TA will undertake awareness program and capacity building exercise to advance knowledge on internet banking



# Project Deliverables /Key Performance Indicators (KPIs)

Results Chain	Performance Indicators with Targets and Baselines
<b>Outcome</b> <b>Access to finance for women-MSMEs improved</b>	<p>By 2027</p> <ul style="list-style-type: none"> <li>a. At least 20 women in the identified MSME clusters have managed to access finance through fintech solution and managed to sustain their business activities</li> <li>a. State-level institutional arrangement to support women-MSMEs established</li> </ul>
<b>Outputs</b> <b>1. Strategic study identifying the demand and supply side access to finance constraints for women-MSMEs</b>  <b>2. Pilot project for 2 women-MSME clusters implemented</b>	<p>By December 2024</p> <ul style="list-style-type: none"> <li>1a. Study for at least five industrial clusters across five states in India completed</li> <li>1.b At least one analytical note or policy brief published</li> </ul> <p>By December 2026</p> <ul style="list-style-type: none"> <li>2a. At least 20 Women from each of the 2 identified MSME clusters participated in the pilot projects</li> </ul>

# Project Deliverables /Key Performance Indicators (KPIs)

## Key Activities with Milestones

### 1. Strategic study identifying the demand and supply side access to finance constraints for women-MSMEs

- Undertake survey and Focus Group Discussion with various stakeholders and government counterparts to assess the state and challenges of demand and supply side (Q3-2022 to Q4-2022)
- Study a suitable governance structure for managing the 2 pilot projects of selected states in coordination with the district industry centers and state government (Q1-2023)
- Prepare the study report (Q1-2023 to Q1-2024)
- Conduct dissemination workshops and publish policy briefs (Q2-2024 to Q4-2024)

### 2. Pilot project for 2 women-MSME clusters implemented.

- Awareness activities and capacity building to improve digital and financial literacy (skill development with smart phones, internet banking, women entrepreneurship, financial literacy) (Q1-2025 to Q3-2025)
- Procurement of smart phones with affordable mobile data plan (Q2-2025 to Q4-2025)
- Linking banks to participating women promoting digital lending (Q1-2026 to Q2- 2026)
- Improved backward and forward linkage promoting digital payment (Q3-2026-Q4-2026)

## Inputs

**ADB TA Resource: \$2 million**





## Cost Estimate and Financial Planning

Item	Amount (\$'000)
<b>Consultants (Analytical study and pilot project)</b>	<b>1,450</b>
a. Remuneration and Per diem	
International Consultants	1,200
National Consultants	250.0
b. out-of-pocket expense	
International and local Travel	20.0
Report Preparation and Communication	10.0
<b>Survey</b>	<b>100.0</b>
<b>Procure smart phones and mobile data</b>	<b>150.0</b>
<b>Trainings and Seminars</b>	<b>100.0</b>
Facilitators and Resource Person	20.0
Venue Rental	40.0
Training equipment and other expenses	40.0
<b>Misc administrative and support cost</b>	<b>100</b>
<b>Contingencies</b>	<b>100.0</b>
<b>Total</b>	<b>2,000.0</b>

# Thank-you!

