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Bridging the Gap: Loans for Micro & Small Enterprises in India

Out of the 26 million small businesses in India, only five percent have access to debt financing from the formal sector. This represents a US\$198 billion debt gap in the micro and small enterprise (MSE) sector, which is brought about by regulatory and business model restrictions as well as by cost prohibitions from commercial banks who find the loan amounts too small. This leads MSEs to borrow from informal lenders with usurious rates of 100% - 120% p.a.

Kinara Capital (Kinara) fills this gap between microfinance and bank financing by providing loans in amounts ranging from US\$2,000 to US\$20,000 to MSEs in India that have a turnover of less than US\$400,000. Using an innovative approach to identifying and assessing potential borrowers through its network of sourcing partners, Kinara is able to reach and assess MSEs cost effectively, enabling it to offer relatively small loans at affordable interest rates. By also addressing a major working capital need that is not being served by Indian financial institutions, Kinara helps MSEs expand their business, increase capacity and revenues, generate

new jobs, and increase incomes for their workers and owners.

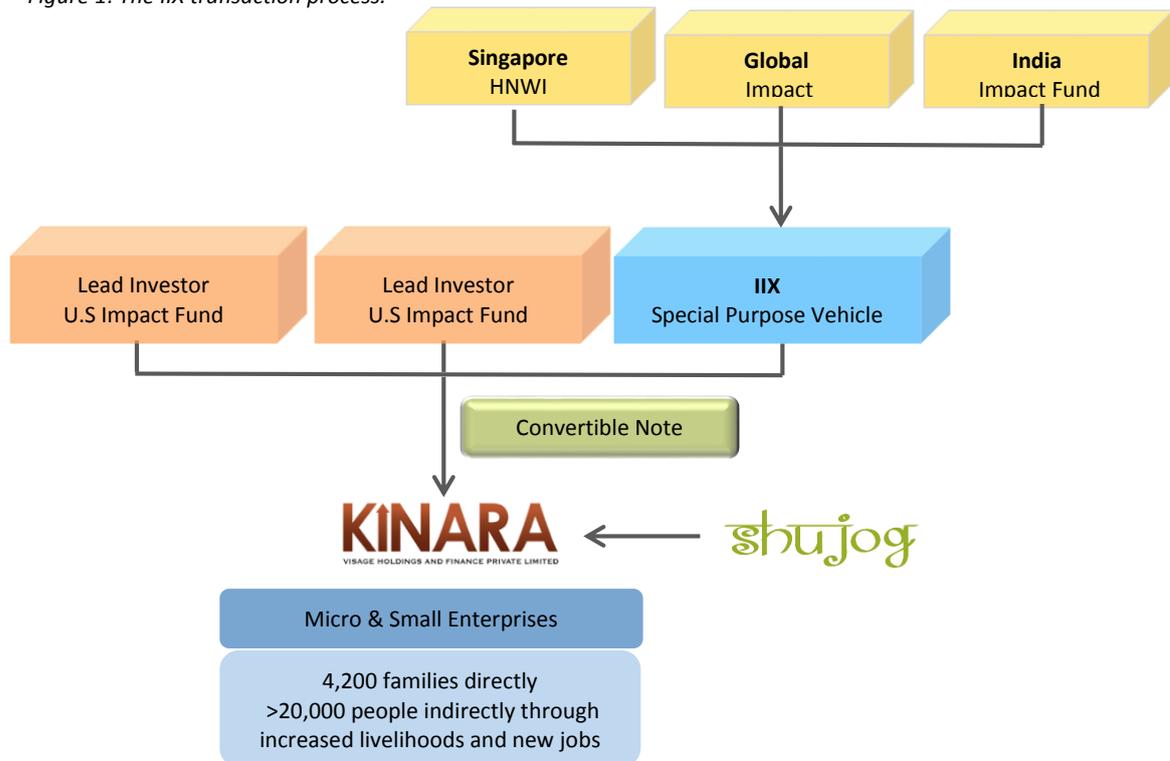
IIX INVOLVEMENT

Kinara recently raised nearly US\$1million of investment capital in the form of compulsorily convertible debentures, which will enable it to scale its business by increasing its lending activities. IIX is pleased to have been able to assist Kinara in this capital raising process through its Impact Partners platform.

When Kinara approached IIX, it had already secured funding commitments from two US-based impact investors. The lead investor had performed due diligence, negotiated the terms of the investment, and committed a significant portion of the capital that Kinara needed. However, to fulfill its growth objectives, Kinara needed to raise additional capital.

This is where IIX came in. IIX brought Kinara onto its Impact Partners platform, where its information

Figure 1: The IIX transaction process.



was presented to the Impact Partners membership base of mission-aligned investors. IIX then arranged an investor showcase, at which Kinara, along with several other Indian social enterprises, presented their business cases to a room full of Impact Partners members.

This process resulted in a number of individual investors expressing interest in joining the lead investors in Kinara's investment round. To facilitate the transaction process, IIX assisted in structuring a special purpose vehicle through which these investors aggregated their investment in Kinara, all in time for Kinara to close on the investment before the end of its fiscal year on 31 March 2013.

Now that the investment has closed, Kinara has engaged Shujog to design a social impact framework that Kinara will use to track and report on its effectiveness in realizing its mission to

provide affordable financing to support the growth of MSEs in India.

Impact of Investment

Investments going into Kinara will aid the social enterprise to expand its operations in other Indian cities through a hub & spoke model, creating more jobs and increasing income levels of small business owners via business creation and expansion.

With its customer-centric business model, Kinara effectively evaluates the borrowers' ability to pay through its proprietary risk scoring methodology, but also trains borrowers on business skills. The borrowers are efficiently sourced through Kinara's partnership with channel partners such as franchisers and local trade organizations who have access to qualified borrowers such as suppliers, subcontractors, primary producer



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groups, and franchisees. Kinara leverages on this unique customer acquisition platform built on trusted relationships to mitigate portfolio risks and reduce its customer acquisition and loan underwriting costs.

To date, Kinara has created 134 new jobs for those in the low-income bracket through 56 loans across manufacturing and artisanal businesses, with 47% in the borrower network being women and 38% being school drop-outs. Borrowers of Kinara also experienced an average of 40% growth in their business income because of the lower interest rates.

Through the raised capital, it is projected that Kinara will help create more than 1,700 new jobs, and over 100,000 by 2016, reaching 20,000 businesses from new product/service opportunities, expanded production capacity, and working capital financing. These businesses will have approximately 50% average increase in income.