Analysis Of the Scheme For First-Time Entrepreneurs

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Executive Summary

1. The new scheme for first-time entrepreneurs aims to tap the potential of women-owned businesses in India and try to remove the obstacles they face in accessing credit. It would **target 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs** and provide **term loans up to ₹ 2 crore during the next 5 years.**
2. The scheme may face the issue of "proxy women" and problems in reaching its target population - women entrepreneurs from economically backward sections and SC and ST women entrepreneurs who need this credit. Another primary concern regarding the scheme is that it may lead to the creation of Non-Performing Assets.
3. **Strict eligibility criteria, verification standards, and an integrated loan-and-training programme** ensure that truly women-owned enterprises get the benefits and women acquire the skills to run those enterprises efficiently. The government may collaborate with RSETI (Rural Self Employment Training Institute) for training programmes.
4. **Group lending and involvement of Self-Help Groups**, specifically for rural entrepreneurs, provide them with community backing and reduce the chances of NPAs due to peer pressure. This can be coupled with new methods of assessing creditworthiness, such as psychometric testing, especially when there is a lack of traditional collateral to reduce the risk of defaults.

I. Introduction

Finance Minister Smt Nirmala Sitharaman Ji, in her budget speech for FY 2025-26, announced a new scheme for first-time entrepreneurs. **The scheme would target 5 lakh women, Scheduled Castes and Scheduled Tribes first-time entrepreneurs. This will provide term loans up to ₹2 crore during the next 5 years.** The scheme will incorporate lessons from the successful Stand-Up India scheme. Online capacity building for entrepreneurship and managerial skills will also be organised.[1] This scheme aims to facilitate access to capital for those who have historically faced challenges in securing credit.

According to Bain and Co., over 15.7 million women-owned businesses in India currently comprise 22% of the country's total entrepreneurial population.[2] With more encouragement and support, this number may increase to 30 million. India's Startup Ecosystem Report (WISER) also noted that the percentage of firms with female founders has significantly increased, rising from just 10% in 2017 to an impressive 18% in recent years.[3] Although there has been a lot of progress, there are still many obstacles that women entrepreneurs must overcome, such as biased perceptions, restricted access to capital and networks, and the difficulty of balancing business endeavours with family obligations. The newly announced scheme aims to address some of these issues, primarily ensuring credit availability.

II. Analysis

Since this is a new scheme, the details of the scheme are yet to be worked out. However, several problems may arise in implementing this scheme, which need to be considered and addressed for effective and efficient implementation, resulting in positive outcomes.

A. Challenges

1. Issue Of "Proxy Women"

One of the significant issues that could arise in its implementation is the phenomenon of "proxy women", wherein **men may transfer their enterprises to their wives or other female family members to receive the benefits of the scheme while retaining command and influence.** Men may also continue to manage and control the business even while the woman is the genuine and original owner. Such control of enterprise would allow men to appropriate the benefits of this scheme despite women being the formal beneficiaries, thus defeating the whole purpose of the scheme.

2. Skewed Distribution Of Benefits

The Stand-Up India scheme, launched on 5th April 2016 to promote entrepreneurship, has been extended to 2025. Its purpose s to facilitate bank loans between ₹ 10 lakh and ₹ 100 lakh to at least one Scheduled Caste/ Scheduled Tribe borrower and at least one woman borrower per scheduled commercial banks bank branch. Despite this, the data of beneficiaries under this scheme up to 2023 reveals that **out of 1,80,636 sanctioned accounts, 80.15% were women, and 14.89% were Scheduled Castes. The remaining 4.96% of beneficiaries belonged to the Scheduled Tribes.** (SC/ST cumulative being 19.85%).[4] This shows an **apparent disparity,** which can be traced to a lack of

[1] Budget Speech 2025-2026
[2] The Economic Times, 8 March 2024
[3] The Economic Times, 8 March 2024
[4] PIB Delhi, 5 April 2023

decision-making skills as well as the economic impoverishment and marginalisation of the SCs and STs. Therefore, implementing the new scheme would require that the beneficiaries are not only upper-class rich women but also rural and SC/ST women, especially women who cannot access credit through the traditional method or lack sufficient collateral.

3. **Creation Of NPAs**

   The creation of Non-Performing Assets (NPAs) could be another major concern. Prateek Bansal, Partner, Taxation at White & Brief Advocates and Solicitors, mentioned, "Care should be taken that the loan support scheme provides loans with minimum risk of recovery to ensure that NPAs are under control."[5] This becomes a significant issue, primarily because **new government schemes related to credit have often led to increased NPAs**. Even in the case of Mudra loans, it is only in 2023-24 that the NPA for public sector banks has finally decreased to 3.4 per cent. [6]

III. Recommendations

There are several ways in which the government can avoid the issues above, thereby ensuring that the scheme benefits the targeted population without any adverse effects on the economy:

A. Proper And Strict Verification Of Ownership And Operations

There should be strict verification before providing the credit to check if the ownership of the business has only recently been transferred to the woman for taking benefit of the scheme. **The criteria of merit check can be drawn from the Women's Business Enterprise National Council (WBENC) Certification, which is considered the gold standard for women-owned business certification**, which validates that a business is at least 51 per cent owned, controlled, operated, and managed by a woman or women. The eligibility criteria under WBENC Certification include the following:

1. Majority (at least 51%) ownership by one or more women
2. Demonstrated proof of female management and control of business
3. Unrestricted female control of the business in legal documents and day-to-day operations
4. A woman holding the highest defined title in the company's legal documents
5. Documented evidence of female contribution of capital and/or industry expertise[7]

In India, where husbands or other family members may provide the capital and first-time women entrepreneurs may be inexperienced, the last criteria may not necessarily apply. However, the other four criteria can guide the verification to ensure that only women-owned enterprises benefit from the scheme.

B. Integrated Loan-And-Training Programme

The scheme can include training and skill development as necessary criteria for availing the credit. It could be an integrated loan-and-training programme[8] providing essential skills to women, even from marginalised sections, strengthening women's ability to run their enterprises and grow their businesses. It can empower women to manage and take control of their enterprises, especially in situations when women own the

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[5] Business Standard, 3 February 2025
[6] The Economic Times, 5 August 2024
[7] WBENC
[8] Asian Development Bank, October 2018

enterprise but male family members make the decisions due to their lack of business knowledge or skills. The right skills would foster business growth, reducing the chances of NPAs.

For the purpose of this integrated loan-and-training, the government can collaborate with RSETI (Rural Self Employment Training Institute). RSETI is an initiative of the Ministry of Rural Development (MoRD). It is a three-way partnership between the Ministry of Rural Development (MoRD), Government of India (GoI), State Governments and Sponsor Banks wherein the banks are mandated to open at least one RSETI in their lead district to provide training to rural youth to take up entrepreneurship ventures.[9] As of 10 March 2022, there are 585 functioning RSETIs operating in 28 states and seven Union Territories, with 10 out of a total of 64 training courses exclusively for women.[10] **Since these institutes already run in partnership with banks, when banks offer credit to a particular entrepreneur, they can register them automatically with a suitable programme from these institutes for mandatory training, and these institutes can share the progress of the respective entrepreneurs regularly**. RSETI program runs with an approach that involves both short-term training & long-term handholding of entrepreneurs. These institutes already have the expertise and the required training set up, which could be utilised by the beneficiaries of this scheme as well. This would ensure that entrepreneurs get expert support at every step. The training could be mandatory for the credit period, and once the entire loan is repaid, it could be up to the entrepreneur to choose whether to continue getting long-term handholding support.

C. Group Lending And Involving SHGs

The utilisation of social, rather than material collateral, is the primary characteristic of the group-lending model of microcredit. Peer pressure guarantees the repayment of loans. In Bangladesh, women are the primary beneficiaries of group lending programmes because there is evidence that women are more sensitive to peer pressure, and so are more reliable debtors.[11] In India, Self-Help Groups (SHGs) are already operating on a similar model in rural areas. While group lending has been used only in microfinance, it can also be applied in this case, specifically for rural women entrepreneurs. Therefore, **SHGs may be involved in providing collateral-free loans to women entrepreneurs in rural areas.** Members of SHGs face similar problems, so **groups may be based on community lines or similar business activities.** Both of these have potential benefits. If the groups are formed on a community basis, SC and ST Women Entrepreneurs will get peer support and encouragement, thereby providing an incentive for overcoming social marginalisation alongside economic backwardness. On the other hand, if groups are based on similar business activities, these first-time entrepreneurs would get more information on the market environment, competition, other financing avenues and the further scope of their enterprise.

D. Psychometric Testing

To overcome the hindrance of lack of traditional collateral and reduce the chances of defaults on debts, banks can also use alternative credit evaluation techniques, such as psychometric testing, to evaluate a borrower's risk. A bank can utilise the findings of **psychometric testing to assess an applicant's creditworthiness based on a brief behavioural science questionnaire that considers personality**

[9] Bank of India
[10] PIB Delhi
[11] Journal of health, population and nutrition

traits and business expertise. While psychometric testing is increasingly being used in India for professional recruitment, it can prove to be beneficial for understanding the creditworthiness of borrowers as well.

IV. Conclusion

The scheme for first-time entrepreneurs can help India accelerate and support the potential of the remarkable rise in women-owned businesses and overcome one of the most significant challenges that women entrepreneurs face - accessing credit. However, implementing the scheme may face some hurdles, the most important being reaching the target population and preventing the creation of further NPAs. The government must ensure that a proper verification process is followed so that men do not misappropriate the scheme's benefits. Further, the government can follow an integrated loan-and-training programme through RSETIs so that first-time entrepreneurs get short-term skill development and training and long-term business support. At the same time, banks could constantly track their progress during repayment, reducing the possibility of NPAs. Other measures can also be incorporated into the scheme to ensure full repayment of debt, such as psychometric testing and group lending, with the involvement of SHGs. Group lending would also provide community support and encouragement, especially to SC/ST Women entrepreneurs. Therefore, the scheme for first-time entrepreneurs offers a significant opportunity to boost business growth in India and, on the other, provide financial help and social and economic upliftment to women entrepreneurs, including SC/ST Women.

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