

Annual Impact Report 2022-23

Increasing Access To Finance For
Nano And Micro Entrepreneurs

arth



Disclaimer

The information provided in the Annual Impact report is for general informational purpose and provided in good faith and based on past performance. However, we make no representation or warranty of any kind, express or implied about the completeness, reliability, suitability. Past performance is not an indicator of future performance. Certain information set forth in this Report, including management's assessment of the Company's future plans and operations, contains forward-looking statements which are based on the Company's current internal expectations, estimates, projections, assumptions and beliefs. These statements are not guarantees of future performance and undue reliance should not be placed on them. Please note that, no part of this report should be used, reproduced without express prior written consent from the Company.

Index



| Section 1

Founder's note	5
About ARTH	7
Our Theory Of Change	9



| Section 2

Impact Analysis	12
• Impact on our customers	
• Aligning With SDGs	
• Financial Services Impact	
- Credit	
- Insurance	
- Payments	

| Section 3

Partnerships	27
---------------------	-----------





Kishor Ram | Tailor Shop Owner

He is a 34-year-old entrepreneur from Bhiwadi district who runs two tailoring shops. Originally from Bihar, Kishor came from a very limited financial background and had migrated to New Delhi with hopes to make better wages. After years of struggle and apprenticeship under a tailor, he managed to save enough money to start his own venture. A few months ago, he was planning to buy raw materials and make asset purchases for his shop which invited an investment of over ₹2 lakhs. He was short of ₹30,000 but with ARTH's financial support, he availed a loan for the first time in his life and made the investment he'd planned for long. He is very cognisant of the repayment cycle since he aspires to buy a home loan too from ARTH after the completion of the present loans' repayments.

Founder's note



Financial services sector in India has gone through an evolutionary change. The 2000s saw the emergence of new channels like debit/credit cards, ATMs and the internet expanding the reach of banking entities. However, banking continued to cater to the needs of upper and middle-income segment of the country.

While the banks continued to expand both branch and non-branch channels, regulators facilitated inclusion by introducing the game changing agent-banking with the passing of Business Correspondent and Business Facilitator Guidelines in 2005. This led to the expansion of micro-financial services in deeper geographical pockets of India. Overall Business Correspondents added over 100 million customers largely in the Below Poverty Line (BPL) segment in India. This also added to the account-opening-linked-savings initiatives on a large scale for mainly public sector banks. On the credit side for this segment, MFIs took the offering of joint liability group loans for livelihoods as a proposition.

Many good initiatives were carried out during this time and in addition, government introduced its own public products in the form of Universal ID (Aadhar) and the India Stack to support Financial Inclusion.

Every few years, India has witnessed the emergence of new models to address complex large-scale problems in a widely diverse and growing nation like ours. In more recent times, three trends are forming the foundation of a new frontier.

- Distribution Platform led innovation by Fintechs
- Payment-centric innovation led by Fintechs
- India's move towards digital public infrastructure

In our country, to truly innovate, one must identify systematic problems and opportunities that have become the core reason for the mass

Founder's note

population to be excluded on the basis of a good social system, namely - finance, health and education. All the above trends are great pathways to unlocking the mega economy of India and we are indeed seeing the results in current times.

The human economic engine of India comprising of people with income brackets of ₹3 lakhs to ₹10 lakhs per annum are largely small businesses which are proprietor run. They typically employ two-three unskilled people on an average, and in that sense support not just their own household but extended families of their workers. This is the bulk of India, contributing 30% to the current \$3 Trillion economy of India, which is expected to become \$5 Trillion wherein the contribution of these businesses will go up by 50%. Government is encouraging growth of this sector beginning with formalizing their registrations through Aadhar Udyam where already 1.5 crore MSMEs are registered.

The segment loosely bucketed as the growing APL or sometimes referred to as the 'missing middle.' Undoubtedly the largest segment of the Indian economic pyramid. Such small businesses require both financial and social support. The need for small, flexible & timely capital is bound to play a catalytic role in growing the country's economy.

The typical banking models have been focused on Agri Loans, Secured Business Loans, Loan Against Property or Gold Loans to these customers, all of which are on one hand counter-productive and on the other not likely to be available as security for most of these customers. This behavior also emerges from the inability of the traditional entities to assess the cash flows of the business which at this level (almost all the businesses are proprietor-led) overlap with household cash flows.

In line with the futuristic requirement where finance would have to move from being passive to being an active transformative partner, ARTH too uses responsible credit as an entry point to customers' life and then provides a whole gamut of digital tools for market linkages and content-based learning leading to capacity building. This approach to access to responsible finance is changing the lives of millions of families with better health, food security and quality education. This is the new formula for Digital Financial Inclusion in line with SDGs.

There is clearly a role for driven organizations with philanthropic capital, impact-equity and long-term debt participation to support the growth of start-ups, industry and the nation. The key remains in diligent and patient execution, understanding and supporting the customers, and constant innovation leveraging the available resources.

ARTH is an Inclusive MSME Fintech, focused on helping every small business owner succeed.

Shweta Aprameya
(CEO & Founder)

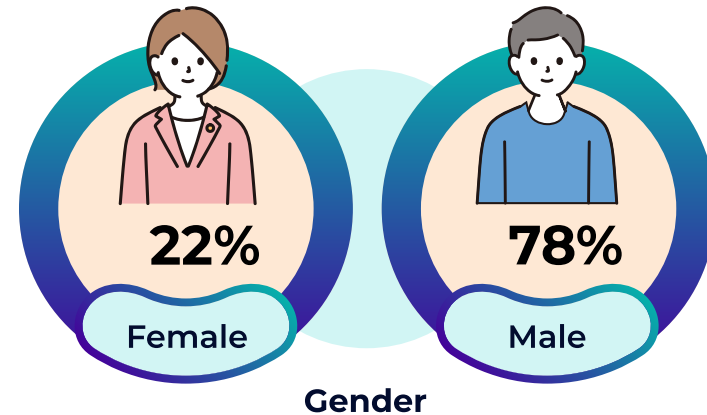
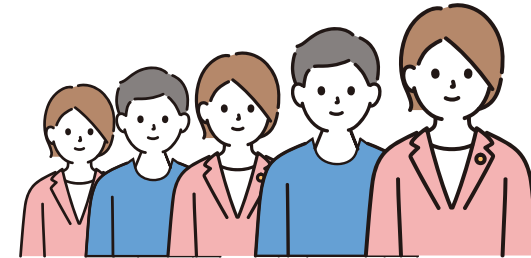
About ARTH

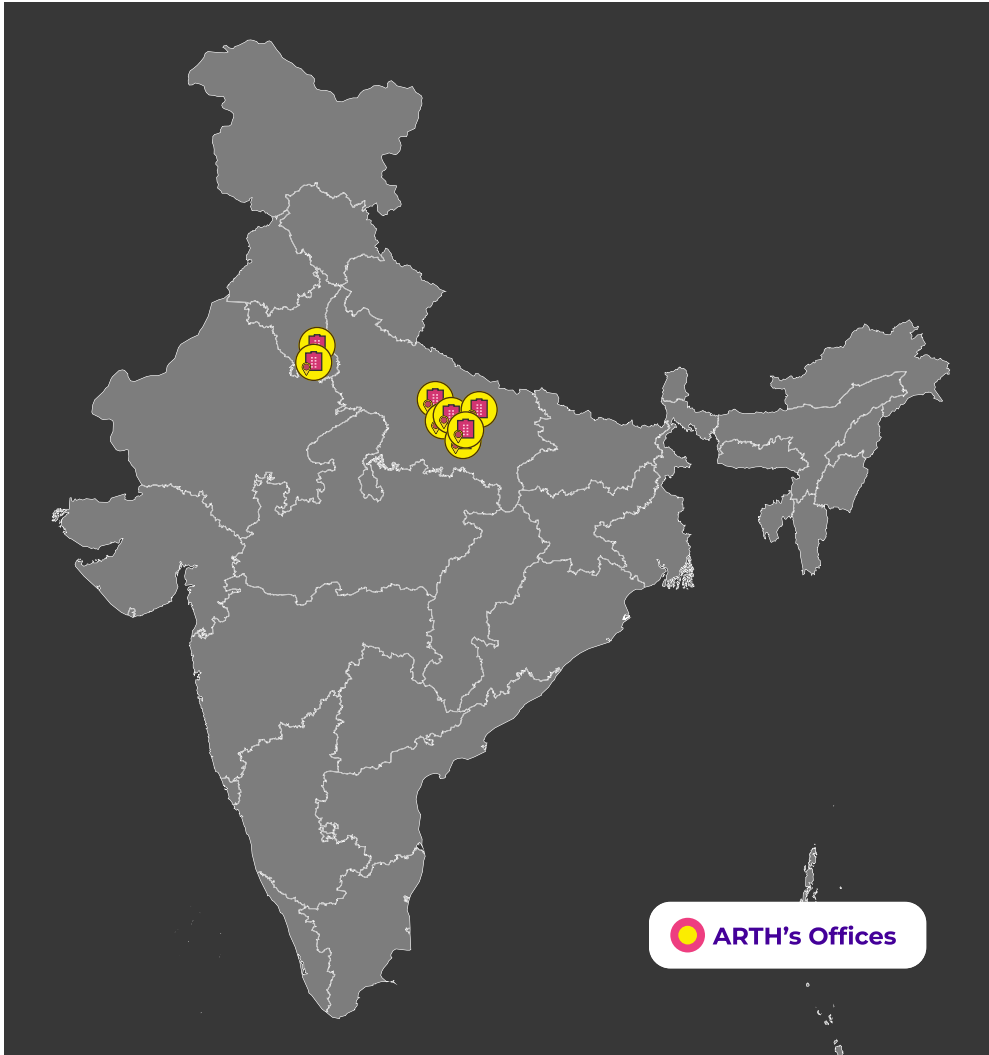
ARTH is an RBI-registered NBFC (Non-Banking Financial Company) providing access to finance to nano and micro entrepreneurs who have been overlooked by traditional financial institutions.

The small businesses across India are the strongest pillars of India's growth story and we are optimistic that with last-mile accessibility to financial solutions - small business owners can empower their lives and improve their economic potential and of the national economy at large.

In a nutshell, our mission is to make access to finance easy and affordable at scale for the 'missing middle' population of India who have imbibed an entrepreneurial spirit over the years and seek formal access to finance to spark their business-oriented aspirations.

Our Customers' Demography



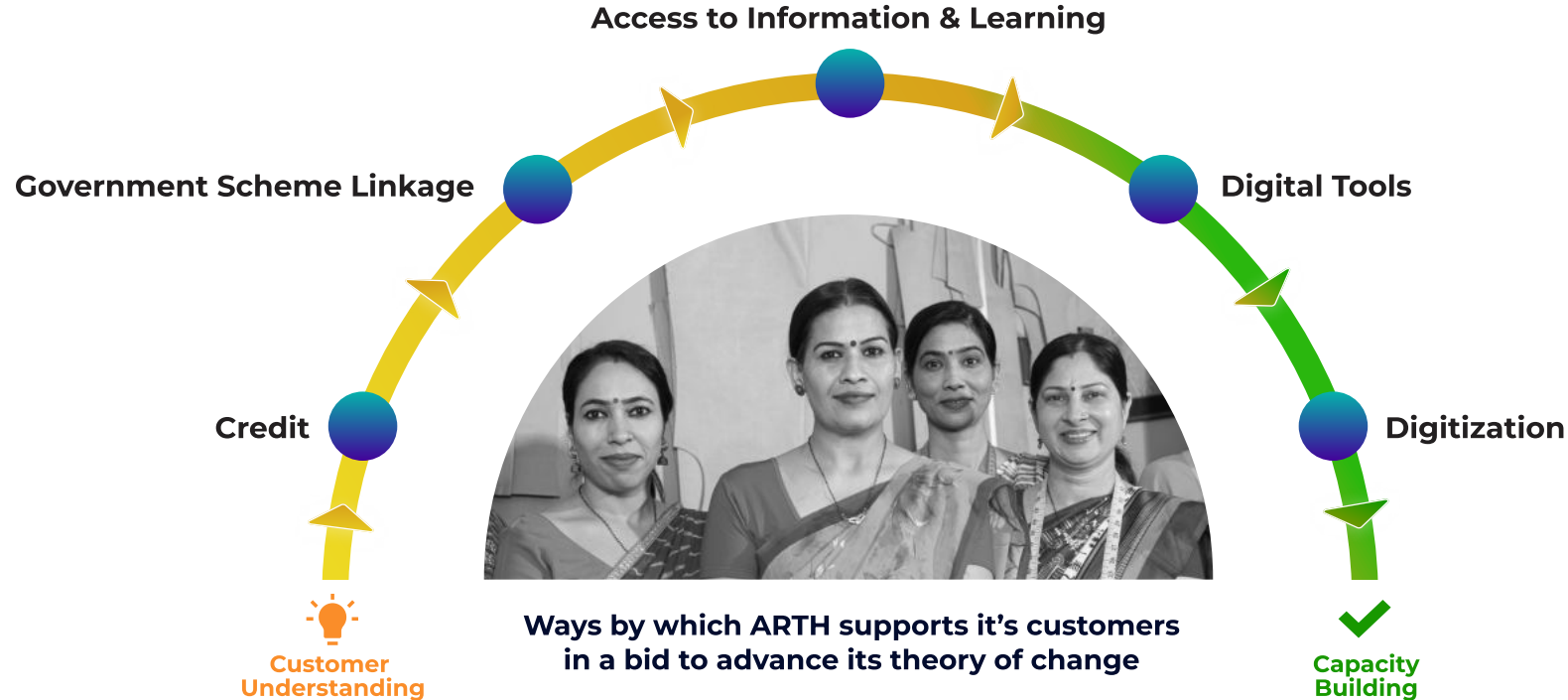


Rajesh Kumar | Mobile Shop Owner

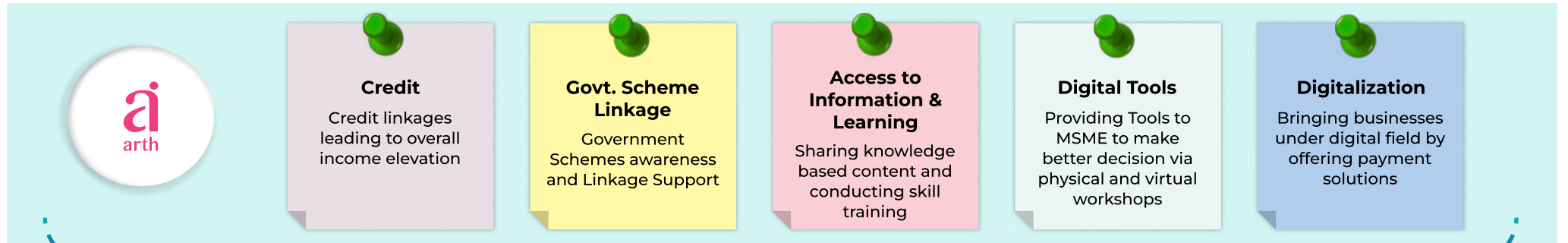
He is a 34-year-old entrepreneur who runs a mobile and electronics store in Bhiwadi. In an effort to expand his business, he wanted to buy mobile accessories for which he availed a loan amount from ARTH 7-8 months ago. Rajesh says the investments he's made into accessories have easily helped him to increase monthly sales by 20%.

Our Theory Of Change

ARTH's theory of change is built on the premise that if financial access in the form of **fair-priced capital infused with payments, insurance and skilling/learning content is given to an entrepreneur**, it can bring viable returns on business and thereby have a positive impact on the income and economic prosperity of the household and economy as a whole. Therefore, we have taken up a customer-focused approach in identifying the business-oriented challenges Nano and Micro entrepreneurs face today, in order to build customized financial solutions for them.



Our Theory Of Change



Measuring Impact

Economic Prosperity

- Assets Creation
- Income Elevation

Social Upliftment

- Sense of Confidence
- Sense of Dignity

Financial Health

- Borrowing Pattern
- Reduced Indebtness

Sustainability

- Generating Profits
- Gaining New Skills

Driving Global Impact - UN-SDGs

1 NO POVERTY



2 ZERO HUNGER



8 DECENT WORK AND ECONOMIC GROWTH



10 REDUCED INEQUALITIES



3 GOOD HEALTH AND WELL-BEING



5 GENDER EQUALITY





Vimla Devi | Tailoring Centre Owner

She runs her own tailoring centre near Pataudi, Haryana. Starting with a small loan from ARTH, she started her business from home and now owns a shop in Pataudi market. Her business has grown from ₹15,000 per month to over ₹1,00,000 now. As an empowered women, she has now employed 15 women at her shop. In spite of not being literate, she regularly attends ARTH's financial literacy workshops, where she learned how to read, write and also use a smartphone for calculations and payments.

Impact Analysis

Design

The survey was conducted to assess the impact created by ARTH focusing on micro businesses and their households in the year 2022. The quantitative survey method was adopted as research method using primary and secondary data (company database) collection method.

Key Focus Points

- Increase in family wealth creation after credit utilization
- Gender inclusive financing
- Acceptance & adoption of digital tools
- Livelihood enhancing support

Data Sources

The study aimed to assess the impact created by ARTH on the lives of its customers i.e. micro business owners and their households from the following sources:

Primary Source of Data:

Quantitative data: Survey method based on in-person interview method conducted with standard questionnaire as research tool.

Secondary Source of Data:

Total ARTH customer database was taken for comparative evaluation

Data Collection :

A touch and tech approach to data collection was conducted with steps as below:

- Conducted by the on-ground team
- Training - virtual & in-person
- Monitoring of the ground-team - virtual and in-person
- Customer Relationship Management(CRM) based data collection

Sampling Approach

ARTH followed the Random Sampling approach for the micro business owner population as given below: The total sample size of 151 micro business owners was calculated using the population frame (total active customer base of ARTH) based on 95% Confidence Interval and 5% Margin of Error.

Impact On Our Customers

As an NBFC providing customized financial services to MSMEs in India, we have disbursed loans worth ₹480 crores reaching more than 4 lakh customers since our inception in 2019. Moreover, with our micro-insurance policies in collaboration with our partners, we have impacted the lives of many customers.

We are also focused on empowering women entrepreneurs through our gendered financing solutions. Supporting more than 70,000 women entrepreneurs makes us optimistic of the progress that is possible in this space and the impact we have been generating on-ground year on year.



Sachin | Hyper-Local Partner

“ARTH is playing a major role in increasing access to digital health insurance by offering the best policies at minimal cost. This positive step has helped MSME owners get access to good healthcare.”



4,12,000+
Customers reached



60% (5% increase over 2021)
New-To-Credit Customers



70,000+
Women Customers Serviced



₹480 Cr+
Total amount of loans disbursed



6,000+
Customers provided with insurance



70+
ARTH Pay Points



1,400+
Hyper Local Partners



18,500+
Pincodes serviced

This table represents lifetime data pertaining to ARTH's customers

Aligning With Sustainable Development Goals



Contribution to Sustainable Development Goals

ARTH works in coherence with the social impact framework of the United Nations's-Sustainable Development Goals. Currently, our interventions are focused across six SDGs.



Did you know 50.7 million MSMEs* in India have no access to formal credit? This trend suggests a huge MSME credit gap that we are addressing through our concerted efforts towards empowering New-To-Credit businesses.

ARTH is focused on reducing inequalities by creating a conducive environment for small businesses to grow. We focus on

those businesses that aspire to grow and have been deprived of formal access to finance since they are often judged basis their credit history.

As part of our mission to increase access to finance for small businesses, we have developed a statistical model that assess an

entrepreneur's creditworthiness basis future outlook. Our model is also unbiased towards older age groups (45 years+) who are often deprived of fresh credit.

ARTH has also helped citizens gain access to social security schemes including Atal Pension, Old Age Pension, Widow Pension, Ayushman Yojana etc. Our aim is to reduce social disparities amongst people by addressing information asymmetries. This initiative has helped citizens access the benefits of eligible schemes and also ensured the effective implementation of schemes on-ground.

Data Highlights



60%

New-To-Credit MSMEs empowered*



599

Sabha Conducted



15,853

Citizens Screened



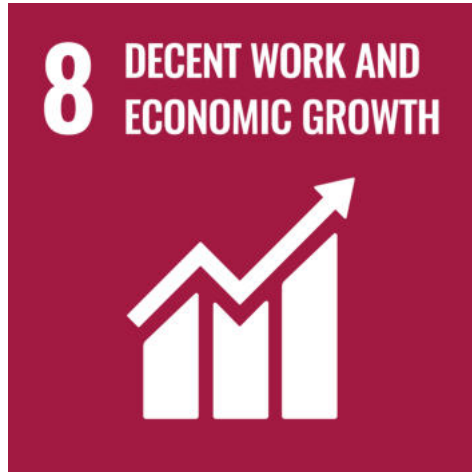
5,720

Citizens Access to Benefits of Govt. Schemes

*This data is as per our Impact Survey Analysis 2022

*Data gathered from an ACCA report

Contribution to Sustainable Development Goals



In India, the MSME sector is in the throes of a wide credit gap primarily due to lack of awareness amongst MSMEs regarding loan opportunities and credit eligibility. A study commissioned by the International Finance Corporation (IFC) pegs this gap to be a whopping INR 16.66 lakh crore, with more than 80% of MSMEs not receiving any formal financing.

In order to promote sustainable economic growth, productive employment & decent work for all, entrepreneurship and encourage the formalisation and growth of nano and micro entrepreneurs, ARTH supports new businesses by providing them with financial services as well as conducts skill & financial literacy workshops to impart knowledge pertaining to fundamentals of business, finance and micro-entrepreneurship.

Data Highlights



267

Financial Literacy Workshops Organised



5,295

Participants Trained



5,000

Women now understand entrepreneurship



70%

Women implementing and practicing skills like stock and record keeping

Contribution to Sustainable Development Goals



As per a position paper by IWWAGE and ISST, India has 13.76% of female entrepreneurs, mostly small business owners.

To ensure women are able to exercise equal rights, they must have ownership and access to economic resources including control over business, access to financial services and ability to purchase assets themselves. They must be encouraged to

participate in income generating activities.

At ARTH, we are focused on financial empowerment of women by providing them with flexible short-term loans and other financial products in consideration of their individual and business' unique needs.

Data Highlights



700

Women trained to become boutique owners, bank sakhis, embroidery shop owners



41%

Women led businesses associated with ARTH



1,217

Women availed gender inclusive welfare schemes



36%

Total women borrowers reached monthly income between ₹25,000 to ₹40,000



85%

Women micro-entrepreneurs have started record keeping of their businesses

Contribution to Sustainable Development Goals



The health insurance penetration is still relatively low in India due to limited reach and lack of information and awareness. Consider the fact that around 75% of Indians pay for medical services from their pocket.

ARTH also works toward ensuring Universal Health Coverage (UHC) by increasing the penetration of micro-insurance coverage among the small business owners. For instance, we are focused on increasing access to our customised health insurance policy that has seen an uptick in registration and reached 6869 unique



customers. We have also introduced a credit insurance that safeguards their EMIs incase of hospitalisation.

Our mission also outlines supporting households with adequate nutrition supply even in the remotest part of the country, and to ensure every underserved family is able to meet their minimum nutrient requirements in an effective, self-reliant and sustainable way. We do this via kitchen gardens or poshan vaticas enabling low-cost organic and sustainable gardening of high nutrient value vegetables in a an Agri field or a small area at the backyard of a household.

This intervention aims to positively impact the household's health and nutrition, to subsequently make the socio-economic capabilities of the household better.

Data Highlights



6869

Customers reached with Health Insurance



Established **100+** Organic Nutrition Kitchen Garden



628

Households Benefited

Financial Services Impact

Credit

As per RBI, India's Financial Inclusion Index has improved to 56.4 from 53.9 in the year 2021. The index captures information on various aspects of financial inclusion in a single value ranging between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.

This is an encouraging development since it indicates that more number of individuals are coming within the digital fold suggesting an improvement in access to financial services especially for the population that's in dire need of credit and other financial products to improve their livelihoods.

At ARTH, we offer business loans in the form of low-ticket loans, high-ticket loans, and affordable housing loans in a bid to increase MSME financing and empowering millions of small businesses who are part of the 'missing middle' section of Indian society.

Reaching new-to-credit and the underserved

Out of the total sample size, more than 60% of respondents were first time borrowers suggesting deeper penetration into new-to-credit and underserved borrower segment.

Gendered financing gets a leg-up

As per our findings, 36% of the total women borrowers were able to reach a household income between ₹25,000 to ₹40,000 monthly owing to ARTH's products. Out of total women borrowers, 42% were able to take a home profit of ₹5000 - ₹15000 and 19% were able to take home profit of ₹15,000 - ₹30,000.

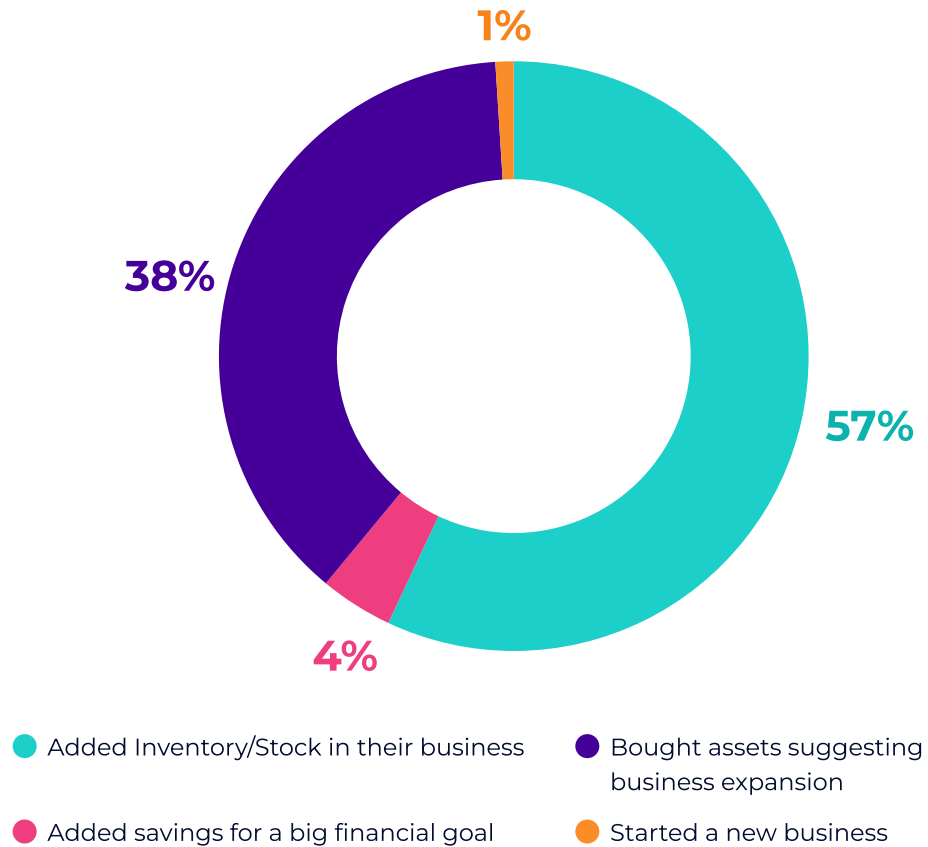
Overall increase in income level

Considering the overall count of survey respondents, we have seen an increase in income level. Out of total responses, about 39% have seen a rise in their income and increased their monthly income from 'below ₹25,000' bracket to 'Rs. 25,000- Rs. 40,000' bracket.

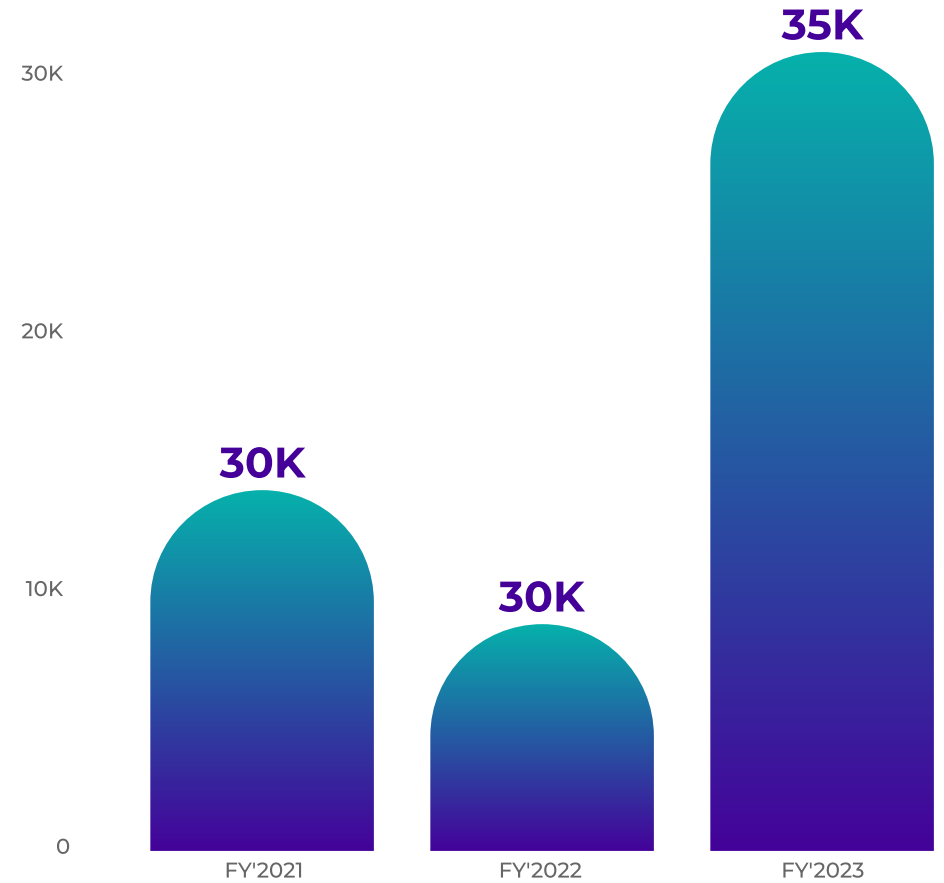
Credit impacting business trajectory for good

57% of surveyed respondents agreed that with ARTH financing, they were able to add inventory/stock to their business. Additionally, 38% respondents were able to expand their business and buy assets for business such as furniture, raw materials etc or deploy physical premise expansion.

Impact of Credit on our customers



Average Loan Ticket Size of ARTH's Customers



Becoming The Citadel Of Groceries In Her Village

Neelam Yadav got associated with ARTH in the year 2020, when she took her first loan of ₹30,000 from ARTH to scale up her grocery shop. After her timely repayments, she availed two more loans of ₹50,000 and ₹1,00,000 from ARTH to expand her business further. She is grateful to ARTH for providing her hassle-free loan, without any collateral. She had started her small grocery shop with limited stocks but after taking loans on three separate occasions which led to income elevation and improvement in her financial wellbeing. She used the loans provided by ARTH in a judicious manner to improve the cash-to-cash cycle and make a handsome profit gradually.

Now her shop is well stocked with almost all the items required by a rural household for its daily needs. This has significantly improved her economic potential and her children are now going to an English medium school in her village.

“Credit support from ARTH has helped my grocery store gain popularity in the village as I am able to keep my shop well stocked. I along with all my centre members prefer to take loan from ARTH rather than from the local money lenders of the village. My store has instilled a feeling of pride and self-confidence in me,” said Neelam Yadav.



From Barber To Salon

Abhishek Kumar is a resident of Darshan Nagar in Ayodhya district of Uttar Pradesh. He has 8 members in his family and is the single bread earner. His father had a small barber shop and after his death, Abhishek took over the business. While brainstorming on different livelihood options, he realized that with increasing exposure to internet and television, men in his area also wanted to avail parlour services to look handsome and groomed. However, there was a huge absence of men salons that provide better services in his location.

This observation piqued his interest in expanding his family business and utilize his skills to earn better income for his household. He then got associated with ARTH through a hyper local partner and availed a loan of ₹1,00,000. By investing the loan amount in renovating and converting his barber shop into a men's salon, he got a chance to work towards betterment of his life. The collateral-free loan from ARTH supported the purchase of furniture, grooming products and other materials required for the upkeep of a salon. He is a proud entrepreneur now and through ARTH's government-schemes linkage program, he also got himself enrolled into Atal Pension Scheme.



Insurance

As per Economic Survey 2022-23, insurance penetration in India had increased steadily from 2.7% around the turn of the millennium to 4.2% in 2020. Consider that the life insurance penetration in 2021 was 3.2%, almost twice more than the emerging markets and slightly above the global average.

However, there's still a long road ahead towards realizing Universal Health Coverage (UHC) in India since there's a need to bolster the penetration of micro-insurance policies that are affordable and accessible for a larger segment of population. In light of this, as an NBFC aiming to improve access to insurance, we provide cost-effective products across Life, Health, Hospicash and a special scheme serving as a Credit Shield to our borrowers.

We have seen an upswing considering the insurance claims, with most of the claim counts coming in from Faizabad-Ayodhya, followed by Barabanki, Sultanpur and Kanpur etc.

Adoption Of Our Health Insurance



Universal Health Coverage Coming Full Circle

Bittan from Sultanpur, Uttar Pradesh runs a tailor shop since 2012 keeping a fine balance between her business and her familial responsibilities.

She started her business in a one-room set due to limited family income. But she always possessed an aspirational mindset that allowed her to access formal loan from ARTH in the beginning to increase her working capital and purchase assets. Later on, she also took a health insurance policy from ARTH that covers hospitalization due to Malaria, Dengue, Chikungunya, Lymphatic Filariasis, Typhoid, Japanese Encephalitis, Bird Flu, Pulmonary Tuberculosis, Swine flu - making her eligible for ₹500 per day claim incase of hospitalization.

In the month of January, Bittan suffered from dengue and got admitted in a hospital for 6 days. This forced her to close down her tailor shop leading to financial distress. However, since she was covered by health insurance provided by ARTH, she completed all documentations related to the claim process and as per the policy got ₹3000 for 6 days of hospitalization expenses.



Payments

Did you know there are 89.5 million digital transactions in India in 2022? As per government's citizen engagement platform MyGovIndia, India has topped global rankings in digital payments business.

ARTHPay is our flagship product enabling digital payments at the shops of designated MSMEs. The idea is to let ARTHPay serve as a capacity enhancer for the small business owners and also provide a multiplier effect in advancing digital financial inclusion.

So far we have empowered more than 70 small business owners as ARTH Pay Points leading to an increase in income and influence in the community.

41% of our customers are business correspondents which is in line with our mission to drive digital financial inclusion and empower more businesses to adopt digital payment services.

Data Highlights



70+
ARTH Pay Points established



41%
business correspondents impacted



27 States
reached with ARTHPay



562 Districts
Covered



Pawan Sharma | A Property Dealer

He is a 34-year-old property dealer who has been associated with ARTH as a hyper-local partner for the last 4 months. Being a property dealer has given him enough heft in the society to sell loans and insurance policies to his customers.

He says ARTH has helped him to make extra money and ensure that small business owners are provided with access to finance to fulfil their needs.

Partnerships

During the year 2022-23, ARTH built and expanded partnerships with regional, local and corporate partners aligned with ARTH's mission to empower the underserved businesses.

ARTH has followed a three-pronged approach for delivering access to affordable financial services to millions of nano and micro entrepreneurs by firstly partnering with national players with retail and merchant MSME networks that are already digitized, and secondly by creating regional partner networks to strengthen regional presence on-ground.

Industries Our Partners Belong To:

Fintech | Banking | Consulting | Insurance | Government |
Philanthropy | Software Development | Agriculture | Research |
Information Technology | Wealth Management | Financial Services

Our Partners:



On Partnership With ARTH



“ARTH’s extensive presence and grassroots work in Uttar Pradesh has truly impressed us. We are excited to work together to support entrepreneurs in this region. Our primary focus is on providing them with access to crucial knowledge, markets, and compliance-related aspects. This is done through online and offline workshops, expert-led sessions, and dedicated services.

We are confident that together, we can make a significant impact on the entrepreneurial landscape in Uttar Pradesh” -

**Mrs Pradnya Godbole,
CEO, deAsra Foundation**



"Partnering with ARTH has helped Zopper in the development of new products that are customized to MSME customers' needs. Because of this partnership, we have designed new innovative products which are affordable and 100% digital. The most important thing for Zopper is to provide customer centric product which are able to achieve by working with ARTH." -

**Surjendu Kulia,
Co-Founder & CEO, Zopper**

On Partnership With ARTH



"ARTH's extensive presence and grassroots work in rural and urban spaces of the country has been truly beneficial to us. We are excited to work together to support entrepreneurs across India. Our primary focus has been on extending financial inclusion and access to credit for members of marginalized sections of society and MSMEs with a strong focus on women entrepreneurs. This is being done through innovative blended financial tools like Returnable Grants and Interest Subvention, with the objective to nurture these businesses and graduate them from informal sources of financing to formal credit guarantee. By reaching out to the small and marginal entrepreneurs across states, we are confident that together, we can build an entrepreneurial ecosystem in the country.

Nehal Shah,
Executive Director - REVIVE ALLIANCE, Samhita-CGF"



a
arth