TRANSFORM

Developing and validating an underwriting model for micro-enterprises in India

In our Insights series, TRANSFORM shares successes and learnings from our projects to:

- Help the SME and entrepreneur community gain knowledge and learn from our projects
- Showcase to funders what can be achieved through impact-led initiatives

PROJECT AT A GLANCE:

DEVELOPING AN UNDERWRITING MODEL FOR MICRO-ENTERPRISES

Established in 2014, **Aye Finance** is a non-banking financial company that serves micro-enterprises across India and is the largest unsecured lender in the segment. With TRANSFORM's support, Aye Finance developed and tested an underwriting model designed to improve access to credit for small businesses like Kirana stores.

Find out more

Collaboration is key to scaling impact enterprises. Learn more about the successful programmes that other enterprises and funders have delivered together. Read more stories here.

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THE CHALLENGE

Kirana stores account for approximately 88 percent of the retail sector in India and make a significant contribution to the country's GDP. However, they struggle with limited access to working capital and formal financing, making it difficult to sustain and grow their businesses. Even when formal credit is available, it is typically standardised and fails to align with the unique cash flow patterns of Kirana stores, leaving many without suitable financial solutions.

THE INNOVATION

With TRANSFORM's support, Aye Finance was able to partner with a specialist research firm to engage 400 existing customers and 2,400 new Kirana shopkeepers. The findings from this research informed a new data-driven underwriting model that improves credit access for store owners, many of whom lack formal financial records and credit history.

By leveraging verifiable business indicators, the model provides a more accurate estimate of monthly sales and enables better credit decisions. The model is integrated into Aye Finance's Buy Now, Pay Later (BNPL) product, enabling shopkeepers to access credit for supplies, manage cash flow, and grow their businesses.

THE IMPACT

By integrating insights from real businesses, TRANSFORM supported Aye Finance in developing a reliable income-assessment model that strengthens its cluster-based underwriting approach (a method that groups similar businesses to better understand and predict risk).

A successful pilot of the model validated its ability to enhance the accuracy of credit decisions and expand financial access for micro-enterprises.

As of FY24-25, over 4,000 Kiranas were served through Aye Finance using this new model*, and an impact assessment conducted on a sample set of participating Kiranas revealed positive outcomes.

Of the 41 stores surveyed, 83% said the credit would help them expand operations. It also contributed to tangible business improvements, including a wider range of stocked products (such as bottled water, fabric softeners, and dairy items) and greater investment in capital assets like generators, CCTV cameras, and refrigeration units.

Store owners further reported gains in their personal lives: improved living conditions (80%), increased savings (64%), and better access to healthcare (73%) and education for their children (78%).

WHAT'S NEXT?

Following the successful pilot, Aye Finance is scaling its BNPL product, with the underwriting model integrated, to reach more Kirana stores across India. By expanding access to tailored credit solutions, Aye Finance aims to help more micro-enterprises secure the working capital they need to grow.

*TRANSFORM's investment was used to support with market research, which informed Aye Finance's new model. TRANSFORM was not involved in the roll-out of the new model to these 4,000 Kirana stores.

INSIGHTS:

DEVELOPING AND VALIDATING A NEW UNDERWRITING MODEL WITH MICRO-ENTERPRISES

1. IDENTIFY KEY PARAMETERS THROUGH FOCUS GROUPS AND SURVEYS

Kirana shopkeepers operate informally, making it difficult to establish standardised financial metrics for credit assessment.

Aye Finance conducted focus group discussions with existing customers to identify the most relevant indicators of financial wellness. Engaging directly with shopkeepers provided insights into their business operations, customer behaviours, and the financial indicators they prioritise, shaping a more tailored underwriting model.

2. ADAPT TO SHOPKEEPER CONSTRAINTS

Many shopkeepers were reluctant to take time away from their businesses to participate in discussions.

To address this, Aye Finance introduced greater flexibility in its research approach—allowing respondents to pause and resume surveys at their convenience. Additionally, refreshments were provided to create a more welcoming environment, ensuring broader participation and more representative insights.

3. ENGAGE LOCAL MODERATORS TO ENSURE UNBIASED INSIGHTS

There was a risk of leading questions influencing responses, potentially skewing data collection.

By working with experienced moderators fluent in local dialects, Aye Finance ensured discussions were natural and unbiased, leading to more accurate insights.

4. REFINE THE MODEL TO REDUCE COMPLEXITY

The initial model relied on over 20 variables, making data collection time-consuming and prone to errors.

With input from credit and data science teams, Aye Finance refined the model to focus on 10 verifiable parameters, improving efficiency without compromising accuracy. Testing against real customer data helped validate predictions, and a cap on deviation was introduced to prevent extreme variances in credit recommendations, ensuring the model was both reliable and scalable.

TRANSFORM

TRANSFORM is an impact accelerator that unites corporates, donors, investors and academics to support visionary enterprises across Africa and Asia. Together, we test and scale new market-based solutions that build inclusive, sustainable economies, empower marginalised communities, and drive climate-resilient growth.

Combining grant funding, business insight and research, TRANSFORM is advancing the development of innovative business models to help solve global challenges. It was established in 2015 and is led by Unilever, the UK's Foreign, Commonwealth and Development Office, and EY.