



Applying Market-Based Models to Improve Financing for Supply Side Distributors of Contraceptives in India

Technical Brief

March 2024/ Snigdha Poonam, Amit Bhanot

About this Brief

For a large section of women of reproductive age in India, purchasing short-acting contraceptives or any family planning (FP) product continues to be a struggle, especially for young women and women living in remote areas. This issue stems not from a lack of retail outlets but from the reluctance of last-mile retailers to stock essential women's sexual and reproductive health products. To understand these interruptions in availability of contraceptives in the Indian contraceptives market, USAID's Frontier Health Markets (FHM) Engage analyzed the market and identified financial barriers that may be hindering its expansion. Distributor agreements with pharmacies often involve negotiated pricing, trade schemes, and discounts for the products supplied to pharmacies. The distributors and chemists in the supply chain do not prioritize FP products, nor do they keep diverse product range (which would increase the likelihood of making sales to a wider audience) as wholesalers/distributors are currently not providing favorable terms for products and contraceptives are perceived to be lesser on retail value and profit margin. This market failure has far-reaching consequences for young women's health and aspirations. It is creating increasingly underserved areas, amplifying unplanned pregnancies, including among teenage girls, and stripping individuals of agency in managing their reproductive health.

Problem Statement

The market gap is the widest at the bottom of the supply chain, i.e. among retailers that sell the products directly to consumers (physical stores, online retailers, and other types of sellers). Local private enterprises, such as small-sized distributors and stockists¹ in India's health sector, face many financial barriers for contraceptive inventory and marketing. These include lack of access to affordable capital to maintain and expand the stock of FP products to serve end users.

- Current contraceptive distributors are unwilling to maintain large amounts of FP inventory through their own funds that will cater to increasing demand. Earlier, distributors used to receive supplier credit or advances from marketing agencies (primarily social marketing organizations/SMOs) to fund promotion activities around contraceptives. That has now dried out with marketing organizations pushing for financial viability.
- Small and mid-sized contraceptive distributors face financial challenges, such as difficulty accessing bank credit due to cumbersome processes and high collateral requirements. This limits their ability to purchase products.

Alliance Co-founding Partner



- The cash-and-carry model employed by SMOs limits the ability of distributors to offer credit to retailers, affecting the stock turnover at both distributor and retailer levels.
- There is limited awareness among lenders and borrowers of new financing options available in the market. Mid-sized distributors often do not know about tech-driven financing models that leverage risk-tolerant loan financing, such as the Government of India's Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

Vision

FHM Engage envisions a more resilient and inclusive supply chain that can cater to the diverse needs of women of reproductive age across India and increase the range of and access to contraceptive choices. The project aspires to cultivate a supply chain ecosystem that supports the financial sustainability of contraceptive distributors while meeting the health needs of communities, ultimately contributing to broader public health goals such as reducing unplanned pregnancies and improving maternal health outcomes. Towards this end, FHM Engage has established a multi-sectoral women's health alliance of public and private sector organizations, the Women's Health, and Livelihood Alliance (WOHLA). WOHLA enables the collaboration across various stakeholders, and uniting efforts to support contraceptive distribution financing.

Strategy

FHM Engage proposes a multifaceted strategy to overcome the aforementioned challenges and will tailor solutions to enhance local banks' financing for small and mid-sized distributors. FHM Engage will work with multiple stakeholders in the financial ecosystem of states of Assam, Delhi, Karnataka, and Maharashtra, over the next few months via following interventions:

- **Improve Awareness Among Lending Service Providers Around Contraceptive Businesses:** FHM Engage will collaborate with financing intermediaries that partner with banks to offer working capital loans for small and mid-sized pharmaceutical supply chain businesses. Currently financing intermediaries do not cater to contraceptive distributors due to factors such as fluctuating demand, regulatory uncertainties, and social or cultural sensitivities associated with the product. FHM Engage will collate and disseminate information around contraceptive market potential, including overlaps with women's health products, and encourage financing intermediaries to include distributors for women's health products in their portfolios.
- **Leverage Government-Backed Schemes for Loans for Contraceptive Distributors:** Distributors of contraceptives and marketing companies are unaware of tech-driven models which are leveraging risk tolerant loan financing, such as those available under Government of India's Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) initiative. Small and medium-sized businesses often face challenges in accessing financing from traditional sources such as banks. Credit guarantee schemes provide a level of assurance to lenders, encouraging them to extend credit to these businesses that might otherwise be deemed too risky. FHM Engage will gain clarity on eligibility criteria and coverage available within CGTMSE. The project will assess whether the local banks are aware of national government schemes around credit guarantees available for medium and small enterprise traders. By improving this market intelligence, FHM Engage will enable local banks to provide loans to small-sized distributors without need for collateral as these loans are covered under government credit guarantee schemes.
- **Improve Access to Banking Services Through Business Correspondents:** Business correspondents (BCs) are individuals or entities engaged by banks and financial institutions to provide banking services in areas where these institutions do not have a physical presence or

where their reach is limited. BCs act as intermediaries between banks and borrowers, facilitating financial transactions and extending banking services to underserved or remote areas. *Appreciate* is one such corporate BC to *Yes Bank* and will enable lending and collection through a system that operates via reliable links to formal banking. FHM Engage will engage BCs with seed capital (a grant) needed to expand operations in underserved regions; will help them to establish credit history for small size distributors of contraceptive products, facilitating larger loans and better terms; and will provide a unified financing platform for distributors to access credit for both inventory and promotional activities.

- **Address Asymmetry of Information Through Market Intelligence:** FHM Engage will gather detailed market intelligence on product preferences and purchase price point preferences from consumer interactions in both digital and offline channels, along with insights from distributor promotions and financing initiated through additional capital. The project will work with BCs and financing intermediaries to explore the development of credit scoring models (which may include business transaction data) specifically designed to assess the creditworthiness of small and medium- sized businesses. FHM Engage will also periodically put together a refined and strategic intervention blueprint that will empower private marketing agencies to work with their respective distributors to optimize their outreach and operations, and lead to a more robust contraceptive market across the states and cities covered by the project.
- **Identify and Support Distributor Aggregators to Look at Contraceptive Markets:** Distributor aggregators are platforms or entities that aggregate the demands of numerous smaller distributors. Partnering with distributor aggregators will help financing intermediaries understand how their loans may help small businesses to broaden their reach and expand market presence for financiers. Distributor aggregators can help to create awareness about products (purchased on credit) among stockiest and pharmacies through digital communication (in-app + social media) and off-app communication (workshops, orientations for district-level pharmacy associations). FHM Engage will work to ensure that manufacturers and marketing agencies of various brands and products coordinate their promotions with distributor aggregators. Partnerships like these will offer crucial insights and guidance on how to effectively market and promote products to the intended customer base.

The Path to Success

FHM Engage aims to facilitate market-based models to fill the current financial and logistical gaps limiting the contraceptive supply chain and, in doing so, will achieve the following:

- **Identify Effective Financial Models:** FHM Engage will find successful financial intermediation models that address the existing credit and logistical challenges for contraceptive products and offer tailored financial solutions that meet the specific needs of the distribution channels.
- **Expand Availability and Distribution:** By highlighting the need for strategic efforts, FHM Engage will ensure that a wide range of contraceptive options reach underserved regions.
- **Foster Partnerships with Financial Institutions:** FHM Engage will catalyze collaborations that will lead to the development of credit facilities and working capital loans explicitly designed for distributors promoting women's health and wellness products and services, enabling them to smoothly scale their operations.
- **Leverage Local Bank Financing:** With improved access to financial resources, distributors may be better positioned to manage and expand their inventory, thereby increasing the range and availability of their products. FHM Engage will demonstrate the value of improving local bank financing for women's health products, including contraceptives.

- **Utilize Government-Backed Schemes:** FHM Engage will determine how to identify and incorporate government-backed schemes that can offer a safety net for small and mid-sized distributors, across multiple geographies, and reduce the financial risks associated with expanding the supply chain.
- **Improve Commercial Terms for Loans:** FHM Engage will demonstrate the necessity of improving the current commercial terms for loans to make them more accessible and appealing to smaller and mid-sized businesses or distributors. Negotiating better interest rates, repayment terms, and collateral requirements can significantly impact the distributors' ability to invest in expanding their reach.

FHMENGAGE
Healthy Markets for Healthy People



@FHMEngage



@FHMEngage



fhm-engage@fhm-engage.org

<https://healthmarketlinks.org/fhm-engage>

Frontier Health Markets (FHM) Engage works to improve the market environment for greater private sector participation in the delivery of health products and services and to improve equal access to and uptake of high-quality consumer driven health products, services, and information. FHM Engage is implemented by four core consortium partners: Chemonics International (prime and co-technical lead), Results for Development (co-technical lead), Pathfinder International, and Zenysis Technologies, and a host of Network Implementation Partners (NIPs).

In India, FHM Engage is partnering with Samhita's Collective Good Foundation (CGF) to initiate the Women's Health and Livelihood Alliance (WOHLA) as a health marketplace to mobilize resources and improve access for young girls and women to healthcare services and products and livelihood opportunities for economic empowerment. Additional partners for this activity include Access Health International, Nivi Inc. and Pharmarack Technologies

This material is made possible by the generous support of the American people through the United States Agency for International Development (USAID) under the terms of cooperative agreement no. 7200AA21CA00027 (2021-2026). The contents are the responsibility of Chemonics International and do not necessarily reflect the views of USAID or the United States Government.