

Digital finance needs demystifying for microenterprise facilitation

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“Yeh to sab aap logon ke liye hai, main to sochti hun mera paisa gayab ho jayega”
(This is all for you people, my view is that my money will disappear)



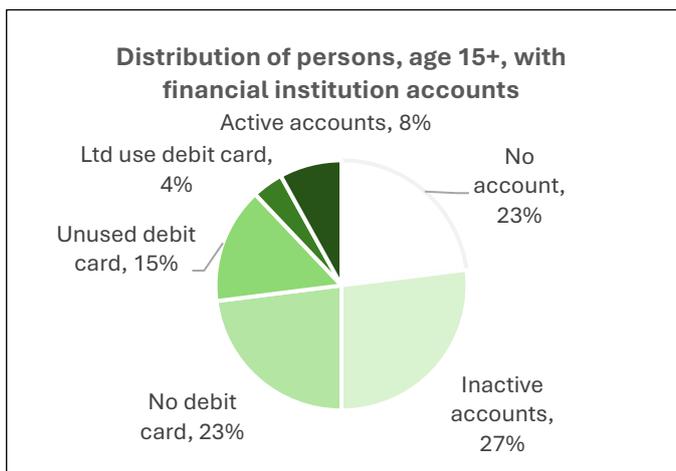
Sarla Devi, a retailer in a bazaar in western UP, likes the feel of cash. If necessary, she prefers cheques serve as records of payments received or made. For her, online records are meaningless because these are virtual (in cyber-space) and “likely to disappear”. Her assistant, the young son of her neighbour in the small town where she operates, has a little-used Jan Dhan bank account. He believes such accounts are meant only for receiving

dole from government agencies, rather than for facilitating people’s lives in any other way.

Not surprising, therefore, that while some microenterprises have leapfrogged personal computers to go directly to smart phones for business facilitation; according to the latest report of the Annual Survey of Unincorporate Sector Enterprises (ASUSE, 2023-24) of the National Sample Survey, just 26.7% of all unincorporated enterprises in India use internet applications on smartphones for business purposes; even fewer, 6% use personal computers for business. However, while smartphone use for business is over 60% for Hired Worker Enterprises (HWEs) in the trade and services sectors; the use of the internet by own-account proprietary enterprises (OAE) is less than 22% overall; less than 10% in a major state like UP.

The low application of the internet for business purposes overall and extremely low application by OAEs reinforces the view that internet banking is, even today, too difficult for microenterprises to use; it is not for the average bank account holder. This is despite the finding that over 45% of rural and 60% of urban microentrepreneurs have had more than 8 years of education and have their own smartphones. More recent enquiries suggest that most people even with graduate-level education view the computer as a “black box” and are unable to handle such online devices as banking apps and UPI tools.

It is not surprising therefore that while the government made major efforts to enable the opening of basic (*Jan Dhan*) bank accounts some years ago, the regular use of such accounts, particularly digital use, is still at disappointingly low levels. Since more recent 2024 data from the World Bank’s Findex – a financial services index – is not available yet, we must rely on Findex 2021. As the figure (top of the next page) shows, while 77% of persons in India (female as well as male, age 15+) had accounts with financial institutions in 2021, just 27% owned debit cards and only 12% used the cards.



An even fewer 8% used cards for purchases (as well as to make bank withdrawals). As many as 35% of financial institution accounts were reported as “inactive” – so 50% of persons (age 15+) had inactive or no financial institution accounts. While Findex 2024 will undoubtedly show significant improvements in these numbers, even a 50% increase over the 3 years (2021-2024) would still produce relatively moderate results for the country as a whole.

What can be done about it? It is clear from even casual queries amongst microentrepreneurs and other low income persons that digital financial literacy is a major challenge that needs to be addressed. The question here is, how to demystify digital financial transactions for those with limited financial resources (and even for some who are better off); to grow understanding that **money does not disappear** when transacted digitally provided all the secure process rules set up by financial institutions are followed. While UPI is a uniquely successful digital payments system amongst well-off and even not so well off people in more developed urban areas, its ubiquity is less apparent in rural towns and villages; the concern about “disappearing money” apparent in the opening quote here seems strange to affluent Indians but nonetheless continues amongst the less well off. It is telling though that most urban users of card payments in India are equally apprehensive when it comes to using “tap and pay” systems so it would be inappropriate to denigrate rural microentrepreneurs for their concerns.

In order to facilitate and simplify the practice of digital financial transactions for much larger numbers of people the digital eco-system needs to address the concerns of most small value users about

- (1) How digital devices work – what is the mumbo-jumbo of multiple keys, passwords, step wise actions and verifications about
- (2) The need for and confidentiality of passwords/PINs
- (3) How to cross-check the outcomes of transactions once completed.

This appears simple enough for the educated and aware financial consumer, but it is a dark and mysterious world for the uninitiated.

The key interventions required are relatively simple in content but huge in volume. **There is the need for a massive public education campaign** – while financial institutions, mobile money providers and their technology service partners have spent lavishly on creating the necessary infrastructure to provide services and in generating awareness amongst affluent and middle income users, their investment in the outreach of that infrastructure to low income users has been limited relative to the size of the population (hundreds of millions of adults) that needs to be reached. A focus on small value users is now needed.

In addition, integrated and aligned messages are required – while there are multiple digital finance offerings sponsored by international agencies as well as domestic government and non-government funders there are often muddled methodologies and confused (if not conflicting) messages on offer. A strategy of follow up and repeat programmes with innovative variations in communication methods – not just demonstrations but also posters, songs and skits – would add to the message.

Equally important, **a network effect could be created by Digital Financial Service (DFS) providers working with local vendors and businesses in less well reached areas.** Customers, observing the benefits of digital payments by peer groups in local shops, are more likely to adopt DFS themselves.

A combination of these measures would promote greater financial inclusion by integrating DFS into grassroots economies, building accessibility and trust, reducing dependency on cash, and improving transparency in financial transactions.

The views in this article are derived from the work of M-CRIL Limited, the author's organisation. M-CRIL is an international practice in inclusive microeconomics.