Facets of the Microenterprise Mela – the digital conundrum

– February 2025

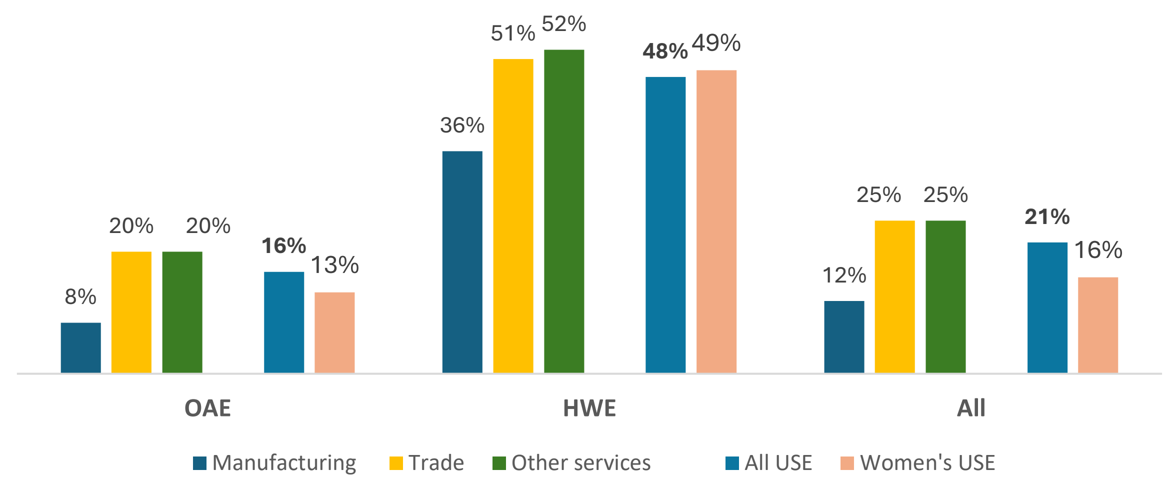
"Yeh to sab aap logon ke liye hai, main to sochti hun mera paisa gayab ho jayega"
(*This is all for you people, my view is that my money will disappear*)

How to overcome constraints in digital finance and support microenterprises

Ginni Devi, a woman textile retailer in a bazaar in eastern UP, likes the feel of cash. If necessary, she prefers to sign a cheque that will serve as a record of a payment made. Online records are meaningless because these are virtual (in cyber-space) and "likely to disappear". Her assistant, a young man who is the son of her neighbour in the small town where she operates, has a Jan Dhan bank account but does not use it. She believes such accounts are only meant for receiving dole from government agencies; such accounts are not for facilitating people's lives in any other way.

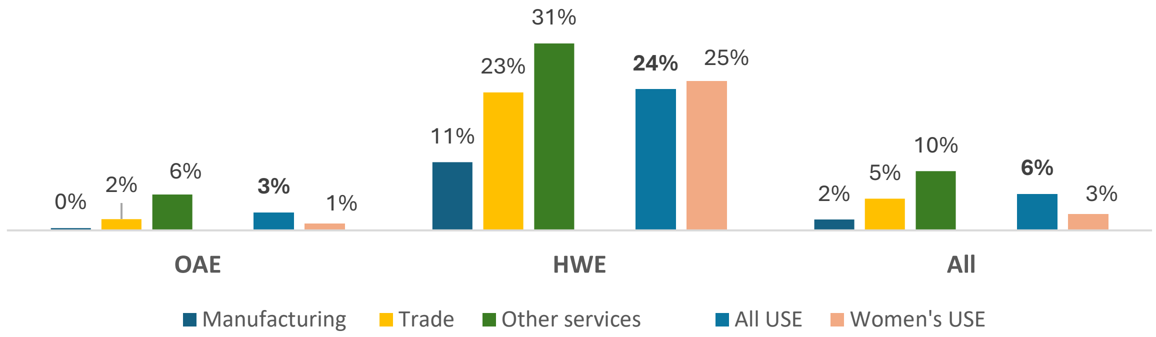
Not surprising, therefore, that while some microenterprises have leapfrogged personal computers to go to smart phones for business facilitation; as **Figure 1** shows, just 21% of all unincorporated enterprises in India use internet applications on smartphones for business purposes; an even smaller 6% of such enterprises use the internet on personal computers for business (**Figure 2**). However, while smartphone use for business is over 50% for Hired Worker Enterprises (HWEs) in the trade and services sectors; the use of the internet is very low for Own Account Enterprises (OAE).[1] The latter are very small, mostly proprietary enterprises operated from home or from makeshift public premises.

Figure 1: Business use of the internet – mainly with smart phones



[1] Data culled from National Sample Survey Office (NSSO), Ministry of Statistics & Programme Implementation (MOSPI), July 2024. *Annual Survey of Unincorporated Sector Enterprises, 2022-23 (ASUSE).*

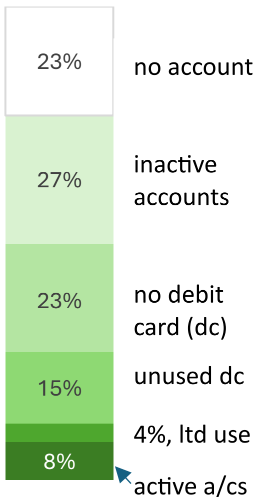
Figure 2: Use of a personal computer for business facilitation



Based on estimates by NSSO from the ASUSE survey (see footnote on previous page) OAEs are as many as 85% (55 million) of the 65 million microenterprises in India. Application of internet facilities for business purposes by **women's microenterprises** (based on the ASUSE survey) register well below the overall averages for OAE but are marginally above the average for the small number of women's enterprises that have hired workers.

The low application of 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 entrepreneurs are "educated" beyond basic secondary schooling (minimum 8 years of education) and own smartphones.[2] More recent enquiries by the author 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 income tax return filing tools. For income tax return filing at the lower end of the income threshold (₹3 lakh to $10 lakh) such returns are either not filed at all or, when compelled to do so as a result of government records created by small tax deduction payments at source, the taxpayer has to incur a cost of ₹2,000 to ₹5,000 in order to comply with the requirement.

Figure 3: Distribution of persons, age15+ by financial institution accounts [Findex 2021]



It is not surprising therefore that while the Indian government made major efforts to enable the opening of basic (*Jan Dhan)* bank accounts a few years ago their regular use, particularly digital use is still at disappointingly low levels. Since more recent 2024 data from the World Bank's Findex is not available yet, we must rely on Findex 2021; while 77% of persons in India (female as well as male

[2] To be fair, this could be as much a result of the poor average quality of public school education as of the complexities of digital applications; nevertheless it is a factor the digital ecosystem must address.

age 15+) had accounts with financial institutions in 2021, just 27% owned debit cards and only 12% used cards (and even fewer, 8%) used them for purchases (as opposed to bank withdrawals). As many as 35% of financial institution accounts were reported as "inactive" – so 27% of persons (age 15+) had inactive financial institution accounts. While Findex 2024 will undoubtedly show significant increases in these numbers, even a 50% improvement over the past 3 years would still produce relatively moderate results for the country as a whole.

What can be done about it? It is clear that digital literacy is a major challenge and, within it, digital financial literacy needs to be addressed. How to convince those with limited financial resources (and even some with better financial resources) that **money does not disappear** when transacted digitally provided all the secure process rules set up by financial institutions are followed. While UPI (the Unified Payments Interface) is a uniquely successful digital payments system amongst rich and poor in the more developed urban areas, its ubiquity is less apparent in rural towns and villages; the concern about "disappearing finances" apparent in the title quote of this document seems strange to affluent Indians but nonetheless continues amongst the less well off.[3]

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

1 How do digital devices work – what is the mumbo-jumbo represented by multiple keys, password requirements and step by step actions and verifications about
2 What is the process for making a digital transaction; how can the user understand it
3 The need for and confidentiality of passwords/PIN numbers; how to store and use these safely
4 How to cross-check the outcomes of transactions undertaken by the user.

Simple enough for the educated and aware financial consumer, but 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 and small value 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, therefore, necessary. This would require

[3] 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 ridicule less well-off people in rural areas for their concerns.

A Micro (neighbourhood and village/sub-village) level **demonstration and practice sessions** of simple digital transactions for people (both women and men) with rudimentary literacy: it would need to incorporate simplified visual-based modules, free access to training programmes and flexible delivery models (community-based batches conducted at convenient times) with state and regional level variations integrated with local languages using simple, clear, terminologies and communication methods **aligned with local people's literacy levels**.

B **Avoiding any attempt to teach the theory of the internet** or the workings of electronic devices; that would only obfuscate and confuse.

C **Developing integrated and aligned messages** since there are many financial literacy programmes by multiple initiatives of international multi-lateral, bilateral and domestic government and non-government funders that have resulted in muddled methodologies and confused (if not conflicting) messages for recipients. Also maintaining a strategy of follow up and repeat programmes with innovative variations in communication methods – not just demonstrations but also posters, songs and skits.

D **Working together with local vendors and businesses in less well reached areas would be part of the process of creating a network effect**, where customers, observing the benefits of digital payments in local shops, are more likely to adopt DFS themselves. This 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.

Over time, this strategy can drive a cultural shift towards digital finance, contributing to the broader goals of economic modernization and financial literacy in all parts of India. In the short term, this is a massive task needing a substantial input but the size of the effort is likely to decline over time as momentum builds and people increasingly learn from each other.

Digital financial systems, applied well, do not make hard-earned money disappear; *rather DFS safeguards people's money while enabling billions of daily transactions by the 65 million microenterprises estimated to operate in India. These generate incomes and employment that,* ***with the support of a flourishing digital ecosystem, would lubricate the economy for hundreds of millions of low-income people.***

This is a follow-up document to the *Microenterprise Mela* work undertaken by M-CRIL and released at end-September2024. https://www.findevgateway.org/paper/2024/09/microenterprise-mela-size-diversity-of-microenterprise-sector-in-india. It is based on research by an M-CRIL team consisting of Sanjay Sinha, Ujjwal Arpana Gone, Charlene Samuel, Shalvi Agrawal with support from Shahanur Al Arif. Useful comments were also provided by M-CRIL's senior team, Frances Sinha, Ashok Kumar, Sudhir Narayan, Tirupathaiah Namani.