

merchants' financial inclusion in rural India

Credit and finance for MSMEs: Small rural merchants in India lack secure access to formal banking services for savings and credit. Those who do must bear the costs and time loss of travelling to banks located at unfavourable distances.

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By Ram Shriram

Credit and finance for MSMEs: Never before has financial inclusion been as important to policymakers as it is today. However, this is not a child's game. In a populous country like ours, geographical barriers and the lack of banking infrastructure, combined with widespread financial illiteracy, make accessing formal financial services and products a huge challenge for merchants in rural India. Industrial growth led by fintech businesses in rural India can be highly conducive in this regard.

Successful initiatives like the Pradhan Mantri Jan Dhan Yojna and Pradhan Mantri Mudra Yojna work in tandem with digital financial infrastructures like the Aadhaar-enabled Payment System (AePS) and UPI to empower small merchants, especially in rural India, to have access to low-cost formal financial products and services. Private sector fintech players further strengthen the viability of these digital financial infrastructures to mitigate the existing socio-economic deterrents between accessibility and availability of affordable formal financial services by leveraging various fintech models such as alternative credit scoring, alternative insurance underwriting, small ticket loans, and peer-to-peer lending, among several others.

The problem of accessibility and affordability

Small rural merchants in India lack secure access to formal banking services for savings and credit. Those who do must bear the costs and time loss of travelling to banks located at unfavourable distances. Moreover, when formal banking solutions are available, the high standards of lending become barriers to their loan-taking capacity, indicating that availability does not guarantee accessibility. Business growth suffers alongside development.

Given the current global scenario of inflation, economic stagnation, and food insecurity, small merchants will have to incur serious losses. Expanding their access to finance and reducing the cost of online transactions, along with digitising business transactions, thus becomes the need of the hour to help mitigate the present market turbulence and prevent irreparable damages to their financial stability.

Roadmap to financial inclusion via digital financial infrastructures

A solution to the problem of millions of [rural merchants](#) in India is in their own hands — mobiles. Thanks to developments in the fintech industry, digital finance is becoming increasingly popular in rural India owing to benefits such as convenience, timely intervention, lower costs of formal banking services, and increased security for small merchants in rural areas. In fact, over the next ten years, emerging markets could generate trillions of dollars in new credit and deposits thanks to the existing digital financial infrastructure.

Kirana stores as micro ATMs- Changing the landscape of rural banking

Micro ATMs are becoming a widely popular financial infrastructure in rural India. Kirana stores or the local grocery shops join hands with Fintech owners and become their business correspondents, where people can deposit and withdraw money, avoiding the travel costs of travelling to faraway banks. One can save on the high costs of setting up high-maintenance banking facilities, and simultaneously, the rural populace can access financial services from local general store owners, who are easier to approach in comparison to unfamiliar bank employees.

Combating socio-economic disparities via digital banking solutions

Financial inclusion provides women in rural India with far greater autonomy in personal decision-making. With easy access to financial services at general stores, which serve as micro ATMs, women can gain the necessary financial independence to improve their condition. Moreover, the current fintech business models use an alternative credit scoring system wherein getting a loan to start a business becomes less cumbersome given the consumer-friendly criteria for qualifying for loans. Thus, these women can use their newly gained financial inclusivity to start small businesses, which can change the course of gender in rural India.

Also read: [Realizing Women's Financial Inclusion: from Access to Usage of Bank Accounts](#)

Such developments together are highly conducive to narrowing the economic inequality prevalent across the country. These fintech startups offer safer and simpler loan-taking services so that people who want to start their own businesses or small merchants seeking extra funding can use them to keep their boats afloat. With such economic stability, the people in rural India will be able to improve their standards of living significantly.

Are digital financial infrastructures truly inclusive?

The argument about the divide between those who can access stable internet connections and those who cannot resurface time and again when digital financial services are brought into the picture. However, the Reserve [Bank of India](#) has long introduced a simple yet powerful solution for this critical issue in the form of UPI 123 Pay, which allows everyone to utilise UPI features without an internet connection or QR code using feature phones just by calling a number and providing some details to initiate a digital payment.

Here, the need to scan a QR code also goes out the window. The whole process of digital payment is completed securely in 3 steps, and [RBI](#) has also given a helpline number to assist with the same. The digital infrastructure also has three alternative methods of initiating payments: via an application, missed calls, and proximity-based sound-based payments.

A step towards a promising future

Digital payments are a key tool for expanding financial access in developing countries like India, where mobile phones are more prevalent than bank accounts. A comprehensive financial inclusion strategy combines rapid growth in financial literacy with collaborative communities. Combined with flagship programs such as [Digital India](#) to improve digital infrastructure in the country, the contribution of fintech companies and startups will be more crucial than ever. Persistent and equitable implementation can transform the way merchants in rural areas operate their businesses to make more informed decisions and save a significant amount of investment and resources, making financial inclusion a reality.