

OPINION

Relevant for: Governance in India | Topic: E-governance - applications, models, successes, limitations, and potential incl. Aadhar & Digital power

As has been argued in the [first part of this series](#), a more creative and granular approach is needed to overcome the last mile barriers to digital payments, especially for micro businesses that comprise the overwhelming majority of retail value and volume. Products and delivery strategies will need to be tailored to create tangible business value to merchants, be it through easier and more affordable access to small credit, better customer analytics, or streamlined business process management. We tested a few such value drivers with merchants to arrive at propositions (see table 1).

Beyond these broad themes, Catalyst's experiments in its digital payment lab in Jaipur reveal deeper insights for scaling digital payment solutions through public and private sector collaboration.

First, target businesses that have payment collection challenges. Our work with newspaper vendors shows that digital solutions were adopted when they provided business value—to record deliveries, invoice and collect from customers, and reconcile month-end accounts. Over a five-month period, there was a 10-fold increase in paying businesses; the number of digitally-paid invoices increased from 2% to 25%. In addition to lowering operational cost of collections, these vendors saved 40-50 hours a month, which, in turn, facilitated supplementary income opportunities. Thus, they experienced less stress on working capital because of more consistent digital cash flows. The same trajectory can be expected to apply to other “deliver and collect” models, such as those of local cable operators, milk and vegetable sellers and job-based service providers, such as plumbers and electricians.

Second, remove trial costs for new users. Across the board, we see high repeat use among users that adopt, experience and internalize value. However, the initial costs of trial can be a real or perceived barrier to adoption. New business models that remove upfront impediments (installation costs), and instead monetize value-based services (credit underwriting, business insights) or derive revenue from other interested parties could prove more effective. Some companies, for example, have let point of sale become a channel for upstream brands to access buyer behaviour and thus underwrite the bulk of digitization costs. Given positive externalities like greater small business formalization and reduced cash logistics, governments might also consider smart subsidies—linked to sustained usage.

Third, digitize merchants through their supply chains. Wholesalers and distributors often face collection challenges but also expend significant working capital in trade credit, which they offer in terms of accepting deferred payments from downstream retailers. With more foolproof compliance requirements under the goods and services tax (GST) and easier bank-to-bank money pulls enabled by the Unified Payments Interface (UPI), it's a perfect opportunity to displace cash and post-dated checks. Our work across different supply chains, including fast moving consumer goods, dairy and pharmacy, suggests the importance of market structure (does the distributor or brand call the shots?), transaction margins and customer profiles in determining digital traction. A number of sectors are promising in their potential but overcoming behavioural barriers will require a strong institutional push from respective consumer brands and public sector boards.

Fourth, find ways to influence consumers to use digital money for household purchases and businesses will follow. Our ground experiments suggest that up to a third of customers can

move from cash to digital through a simple nudge at the merchant point of sale. This applies to payment modes such as cards, where there is an installed base of users that can move from cash to digital with no major incremental effort. In our work, conversion to newer payment modes, such as UPI or Aadhaar-based solutions, appears to be more challenging as a majority of users need to learn, download, and register to the solution before completing a transaction. Overall, a well-designed and widely promoted incentive scheme for households is likely to steer consumers towards digital merchants, and induce more businesses to start accepting digital payments to avoid lost sales. The Union ministry of finance recently introduced a GST rebate along these lines. It will be worth noting its impact.

Fifth, make creation of digital payment histories the fastest way for small businesses to access affordable credit. Many alternative lenders already leverage payments data to underwrite borrowers and tap digital transaction flows for repayments. This could be leveraged by public agencies to induce offline businesses to deepen their digital footprints through a structured “credit builder” mechanism. It could start by digitizing the 70,000 crore in current loans outstanding across about 45 million members of self-help groups (SHGs) formed under the National Rural Livelihoods Mission so that they can better leverage private sector financing. The disbursement and repayment of these funds between SHGs and individual members is done in cash today.

These high-level strategies will need to be contextualized and detailed locally. Also, their success will require enabling infrastructure and institutional support, including underlying performance-reliable payment systems, effective programmes to build digital usage capabilities, definition of liabilities and remedies for transactions failures, and broader regulatory mechanisms to safeguard against abuse.

The next five-year period is certain to be a watershed moment for Indian digital finance. Understanding and integrating these granular demand-side perspectives could prove key to ensuring that the impact of this change reaches the last mile. There is overwhelming hunger for business growth, as expressed by a large majority of the small merchants interviewed across different format types, industry categories and business profiles. Policymakers and implementers should leverage responsible digital finance to enable small businesses to realize their aspirations, and play a pivotal role in India’s growth story.

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This is the second part of the Mint-Catalyst series on digital payments. The first part can be read at [click here](#)

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