

Digital Finance for Small Businesses and Urban Poor: Early Insights from the Catalyst Laboratory in Jaipur

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What and Why of Digital Finance

- Digital Finance comprises of products, services and infrastructure enabling finance over the internet/telephony (Ozili 2017)
- > 50% of the developing world has access to mobile phones (World Bank 2014)
- Hypothesized benefits of Digital Finance – greater financial inclusion, deeper financial inclusion, GDP growth, increased tax revenues, more transparent financial system (Ozili 2017)

What and Why of Digital Finance

- Some concerns – Data Inclusion vs Financial Inclusion, Privacy (ADB 2016, Malady 2016), regulatory worries (Caruana 2016)
- But here we will stay clear of this debate

The Catalyst Laboratory

- Catalyst - A financial-inclusion platform for the under served aiming to increase digital payments and financial inclusion in India.
- Distinctive in its effort to transition entire small-business ecosystems (of merchants, consumers and suppliers) from cash based transactions to digital payments.
- Catalyst is funded by the USAID through FHI 360 and hosted by IFMR LEAD.

The Catalyst Laboratory

- Several pilots completed over a 2 year period in slum clusters in Jaipur, Rajasthan to increase digital financial access (credit, payments, insurance and savings) for small businesses and households. Many fin-tech startups incubated.

Case1: Digital Payments for small retail outlets (Rao and Singhal 2018)

- Motivation: Suitable and timely finance can spur enterprises to grow and be more profitable (Paravisini et al. 2011; Banerjee et al 2003; Fiala 2013; Atkin et al in progress)
- Goal: To encourage small merchants into the digital payments system. Longer term goal of using transactions history for faster dispersal of credit.
- Merchant camp held in cluster including a 3 day awareness and marketing event for GOI developed and supported transaction platform. 422 interested businesses identified. Mostly apparel, books and grocery stores

Case1: Digital Payments for small retail outlets (Rao and Singhal 2018)

- Leads to merchants on-boarded fell from 422 to 28. Slow conversion due to non linking of phones to bank accounts, poor awareness of debit card usage, low customer awareness
- Pre-pilot indicated that digital-payments solutions that have no upfront costs and are simple to use have higher likelihood of adoption.
- Pilot looked at role of financial incentives to drive adoption and use, comparing two mobile applications BHIM and PhonePe.. Incentives for both merchants and customers

Case1: Digital Payments for small retail outlets (Rao and Singhal 2018)

- Campaign targeted 417 merchants → Total adopters 95 → Active Users 32
- Adoption for GOI backed BHIM higher (Trust), usage higher for PhonePe (instant rewards as opposed to monthly). Sustained use falls due to lack of customer interest.

Case 2: Digital payments for low-income households in a slum cluster.

- Motivation: 50% of bank accounts in India dormant. Financial inclusion helps with poverty alleviation - Burgess and Pande 2005; Suri and Jack 2014
- Goal: To encourage households to open bank accounts and transact digitally
- Two stage pilot: 619 bank accounts opened in first stage. Only 61 could be on-boarded to digital platform. Adopters young, mostly male and users of the internet.
- Only 24 active users after 3 months mostly for mobile recharge cashbacks.

Key Insights/Questions

- **Trust in service provider key for take up. Incentives and ease of use important for sustained usage.**
- Do norms play a role in continued usage? How do you drive quick take up for a new transaction solution to be sustainable?
- Does carpet bombing help? (Indian Jan Dhan and demonetization experiences)
- **Are there ways to drive digital financial literacy in a low literacy population?**

An exciting phase of expansion underway

- Digital-finance solution providers being incubated for scale up.
- We are looking for academic and industry partners to develop and test ideas
- Ping me at ajay.tannirkulam@gmail.com

Thank you