Achieving Financial Inclusion through Digital Disruption: A Sustainable Credit Distribution Model for Indian MSMEs

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Abstract

Last year, the NDA Government led by Prime Minister Narendra Modi rolled out Pradhan Mantri Jan Dhan Yojna (PMJDY) to end financial untouchability in the country. Undoubtedly, this is an important step towards bringing more than 60 percent of the unbanked population under the net of formal banking system. Further, the Government’s attempt to link Adhaar with bank accounts will help to mitigate distribution leakage by transferring benefits directly to the beneficiary bank accounts. But subsidies alone do not build the nation, rather empowerment through credit infusion will certainly help to instil the entrepreneurial spirit, to “start-up” India. As majority of the PMJDY accounts have not done much transactions yet, they have become more of an instrument of elementary financial literacy than financial inclusion. The momentum of the current entrepreneurial boom in the country needs to be supported by a proper financial system led by the banks and financial institutions. We have seen how Grameen Bank has revolutionized micro credit industry in Bangladesh. Cheap micro credit can actually help to bridge the gap between commercial banking and unserved rural population. MSME sector in India has clocked a growth of 12-14% in the last 5 years and contributed significantly towards country’s manufacturing GDP. The E-commerce sector has given a great online marketplace to traditional MSMEs. The Government of India has established a few specialized institutions like NABARD, SIDBI, and MUDRA to channelize credit to agriculture, MSME industries and other needy sectors. But small and micro enterprises still face a lot of challenges while availing credit. In this paper, we aim to develop a viable credit distribution model that would create a robust ecosystem in the country by linking both borrowers and lenders and through establishment of a proper regulation and monitoring mechanism so as to ensure access to capital at right time at right cost. In line with Government’s “Digital India” roadmap this paper tries to explore the option of leveraging technology for building more effective credit distribution. The paper argues that the value creation within the country, for the country and from the bottom of the pyramid will help to realize current government’s dream of “Make in India” without much dependence on foreign capital and a lower, more equitable Gini coefficient. This will also help to achieve sustainable high economic growth with strong macroeconomic environment.

Key Words: Financial Inclusion, Micro Credit, PMJDY, Andhra Crisis, Analytics, DigiLocker, Payment Banks