

# Towards Responsible Digitization of Merchants in Rural India for COVID-19 Recovery

Recommendations to  
Enable Inclusion of  
Women Merchants



**BETTER THAN CASH**  
**ALLIANCE** 

*Submitted to the Interministerial  
Committee on FinTech; July 2021*





Photo courtesy: Hindustan Unilever's Shakti Programme

**The Government of India recognizes women merchants in rural areas as an indispensable part of the country's COVID-19 recovery. However, women merchants are not able to fully realize the benefits of digital payments and other related digital services. These recommendations aim to address that problem and enable them to fully participate in the country's growth story.**

Many women merchants – although working in consumer-facing roles as Business Correspondents (BCs), providing last-mile banking services in areas where there is no bank branch or ATM, as e-commerce sellers, or as Kirana shop owners – have to share their mobile phones with others and rely on their social networks to meet the requirements for digital payments. This makes their experience of using technology vastly different from that of mainstream users and hinders their adoption of digital payments. To complicate matters, digital payments, by default, are designed with the mainstream users in mind and often deemed unsafe by women due to history of online harassments.<sup>1</sup>

As a G-20 leader, India understands that an inclusive digital India can be built with a deep understanding of the rural realities, a greater integration of fintech ecosystems, and by using the country's thriving social infrastructure such as cooperative networks and self-help groups run by women.

Under the leadership of the Department of Economic Affairs, Union Ministry of Finance, the Federation of Indian Chambers of Commerce and Industry (FICCI), and the United Nations-based Better Than Cash Alliance, 15 leaders from Think Tanks, Civil Society Organizations and community networks identified opportunities to advance responsible digitization of women merchants and submitted their recommendations to the Government of India's Interministerial Committee on FinTech.

There are 10 recommendations, in line with the global call for action on [Reaching Financial Equality for Women](#)<sup>2</sup> and the UN Principles for Responsible Digital Payments,<sup>3</sup> to unlock the impact of fintech in merchant digitization and further India's progress on achieving the Sustainable Development Goals.

<sup>1</sup> <https://www.omidyarnetwork.in/blog/can-a-phigital-friend-help-women-feel-safe-online-point-of-view>.

<sup>2</sup> Reaching Financial Equality, 2020; Better Than Cash Alliance, UNCDF, Women's World Banking, UN Women, UNSGSA, World Bank

<sup>3</sup> This work is led by the Better Than Cash Alliance members to which Government of India is a member, and is an update from the 2016 edition of the Responsible Digital Payments Guidelines: <https://www.betterthancash.org/news/responsible-digital-payments-reducing-the-risks-that-come-with-new-opportunities>. The UN principles will be launched in October 2021.

# Recommendation 1



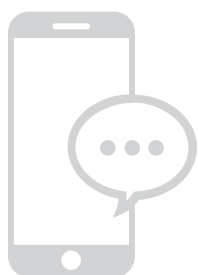
## Bridge the digital chasm that rural women merchants face by creating rural women focused digital solutions and safe online spaces in every Government program

India's fifth National Family Health Survey, released in December 2020, revealed a gaping digital divide in the country, with rural women least likely to have access to internet and mobile devices – the two critical tools for digital payments. Though the Government has taken several steps to improve the availability of mobile devices and internet in rural areas and enhance people's digital skills, a more gender-focused approach will help.

### Actions for consideration:

- Gender-specific targets for digital literacy trainings being provided under Pradhan Mantri Gramin Digital Saksharta Abhiyaan (PMGDISHA), including giving women merchants daily digital safety information. Such bite-sized tips will be in the local language, in a tone and format that they are accustomed to will build greater digital resilience by continuously reinforcing online safety practices.
- Interest-free or soft loans to women merchants and Business Correspondents in underserved areas and priority regions for buying mobile devices, and inclusion of smart phones as part of loans offered through government schemes like PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) and Pradhan Mantri MUDRA Yojana (PMMY).
- Schemes to improve internet access in rural areas, islands, North East, and Hill States, with Department of Telecommunications, Ministry of Communications, working with telecom service providers.
- Advocate for digital safety of women in online spaces to build trust, including consulting behavioural scientist on specific techniques to break cultural barriers to women's ownership of mobile phones.

# Recommendation 2



## Design solutions that work for rural women – so programs are in their languages, and in voice or other formats they can easily access

The importance of access to digital infrastructure has increased with several government welfare schemes, such as Direct Benefit Transfers, being delivered as digital payments. And any new system becomes more accessible and popular if it is easy to use and comes in familiar languages. Ease of use also comes in handy during emergencies.

In contrast, complex terms about pricing, privacy, and service delivery in the English language can raise the fear of fraud. Policies to promote easy user interface and experience, in local languages and in a time-bound manner, will be invaluable.

### Actions for consideration:

- The Reserve Bank of India (RBI), the National Payments Corporation of India (NPCI), and Payment Service Providers can understand current challenges of USSD implementation, and incentivize more creative digital payments solutions that can work on feature phones and in offline mode, and are powered by renewable energy; such solutions can be prioritized in regulatory sandboxes.
- The RBI can mandate the use of regional languages, in addition to English, by all Payment Service Providers for user interface and for giving information on pricing and data privacy, within a prescribed timeframe.
- The Government may mandate user-testing (including women) of consumer-facing solutions and apps, including those developed and led by the Government, based on common minimum standards which can also be embedded into processes before national roll-out.

## Recommendation 3



### Review compensation for women Business Correspondents

Several Business Correspondents work in difficult terrains and need to make multiple visits to prospective customers. The compensation they get, say community networks representing women merchants, is inadequate, especially for those working in difficult and underserved regions where economies of scale are unfavorable. In addition, for many women merchants, the upfront investment of Rs. 50,000 to Rs. 1 lakh needed to become a Business Correspondent is a barrier because few own economic assets.

#### Actions for consideration:

- a) The RBI can revise guidelines for remuneration to Business Correspondents, as recommended by the High-Level Committee on Deepening of Digital Payments led by Infosys Technologies Chairman Nandan Nilekani. The revision in remuneration should compensate for:
  - i) Working in geographically difficult and financially underserved regions, and
  - ii) Reduction in revenue due to GST or other taxes and fees.
- b) The Department of Financial Services and RBI can mandate on-the-job training for Business Correspondents in new technology-led solutions.
- c) The Ministry of Finance and RBI can issue guidelines for cooperative banks and other financial service providers to offer flexible loans to women merchants flexible loans to women merchants to enable them to invest money required to function as Business Correspondents.

## Recommendation 4



### Enforce and monitor TDS waiver by public sector banks

Section 194N of the Income Tax Act stipulates tax deduction at source (TDS) for cash withdrawals above Rs. 20 Lakh per account during a financial year. It mentions that “any” Business Correspondent of “a” bank is exempt from this.

However, local banks in rural areas still charge 2% to 5% TDS on cash withdrawals beyond the annual threshold, undermining the incentive for Business Correspondents. Many of them can cross the threshold of Rs. 20 Lakh in just 40 days if they have 50 citizens every day withdrawing their Direct Benefit Transfer of Rs. 1,000.

As a result of the flawed implementation of TDS waiver, many Business Correspondents who earn 0.5% of the transaction amount as commission, are turning away from Direct Benefit Transfer services in rural areas.

#### Actions for consideration:

- a) The Ministry of Finance can review the implementation of TDS waiver for Business Correspondents and issue clarification saying that the “a” bank in Section 194N (iii) should be read as “any” bank; all banks can apply the waiver upon receiving an introduction letter from a Business Correspondent’s sponsor bank.

## Recommendation 5



### **Prioritize, incentivize and set targets for onboarding women in national merchant incentive schemes**

Grameen Mitra, SEWA, Mann Deshi's network of women merchants and many others have been instrumental in servicing underserved customers, especially women, at the last mile.

#### **Actions for consideration:**

- a) The RBI can give preference to women Business Correspondents in the Payment Infrastructure Development Fund. The RBI and Business Correspondents Federation of India should consider formal recognition for banks and Payment Service Providers that have the largest number of women and women's organizations as Banking Correspondents.

## Recommendation 6



### **Apply gender lens to all policies and campaigns focused on needs of women merchants**

Women merchants often manage both business as well as family responsibilities, leaving them with limited time and mobility to access options usually available only during regular work hours. Women merchants can find it a challenge to manage multiple apps on their digital devices, which usually have lower processing capabilities than those used by male merchants.

#### **Actions for consideration:**

- a) The RBI can introduce guidelines to reduce travel to bank branches and make helpline services and other mechanisms available at places and times convenient to women merchants, ideally by women officials; it can also have specific guidelines to resolve complaints within a stipulated time, with regular updates to the customer.

## Recommendation 7



### **Flexibility in area coverage for women merchants**

The maximum distance of 30 km allowed between a Business Correspondent's area of work and her base bank branch can mean different experiences in different areas. In a difficult geographical terrain, it can pose a stiff challenge while in other areas it can be an attractive business proposition.

#### **Actions for consideration:**

- a) Make the service coverage area for Business Correspondents flexible, to be decided in accordance with the terrain and the level of financial inclusion in the region.

## Recommendation 8



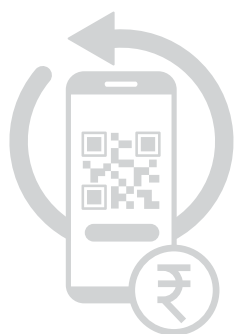
### Provide additional financial incentives for e-commerce women merchants

Several women micro-entrepreneurs want to use e-commerce platforms to tap markets that have been out of reach for them. Though a few e-commerce firms have designed programs to onboard women merchants on their platforms, there is scope for them to develop guidance and training and offer seamless integration with digital payment options for women merchants.

#### Actions for consideration:

- a) The Ministry of Commerce can work with e-commerce firms to create more support in partnership with local community networks for women merchants;
- b) Government can also offer subsidy to firms and encourage them to offer fee reduction incentives for women micro-entrepreneurs, particularly for those in semi-urban and rural areas.

## Recommendation 9



### Incentivize and set targets for the uptake and usage of digital payments both on the supply and demand side

For accelerating digitization of merchants in rural areas for women merchants, there is a need to incentivize both payment service providers as well as users of digital payments so that repeat behaviour in terms of usage gets established.

#### Actions for consideration:

- a) Undertake review of MDR on UPI to ensure continued incentives for banks and payment service providers to further intensify efforts in building a wider last mile reach as they would see the possibility of them being able to recover their costs of laying down the network. UPI enabled QR codes is a low-cost and highly scalable model to build access, however adoption will require additional efforts on building trust (refer to the other recommendations), based on the experience of the Prime Minister's Street Vendor scheme – PM SVANidhi.
- b) Introduce ongoing usage incentives for digital payments for merchants in rural areas. This would help build the habit of acceptance. A higher propensity to accept digital payments accelerates building of both sides of the network. With an increase in the number of active merchants on the supply side and on the demand side, more consumers will come into the fold because of more active acceptance points.

## Recommendation 10



### Include Think Tanks, Civil Society Organizations, Local Community Networks in fintech consultations

Community intermediaries play an important role in digital integration at the last mile. They can collaborate with fintech and Payment Service Providers to collate insights on the needs of women merchants and co-create solutions for adoption of digital payments.

#### Actions for consideration:

- a) The Government of India can invite representatives from Civil Society Organizations to the Interministerial Committee on Fintech and FICCI can include them in its own Fintech Committee.



## Civil Society, Think Tank and Community Network Participants of the Responsible Digitization of Women Merchants Roundtable

- Action for Agricultural Renewal In Maharashtra (AFARM)
- Cooperative Network Maharashtra
- Dharma Life
- Goonj
- Grameen India Foundation
- India Foundation for Humanistic Development (IFHD)
- Mann Deshi Bank
- Mushroom Development Foundation
- PayNearby
- Professional Assistance for Development Action (PRADAN)
- Sa-Dhan
- Sampark
- Self Employed Women's Association (SEWA)
- The Dialogue





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