

FINTECH AND RURAL ECONOMIC DEVELOPMENT: EVIDENCE FROM INDIA'S MICRO-ENTERPRISE SECTOR

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ABSTRACT

India's rural micro-enterprise sector comprising tens of millions of informal and semi-formal units engaged in agriculture-allied activity, trade, and small-scale manufacturing has historically been constrained by a persistent credit and payments gap. Over the past decade, the diffusion of financial technology (FinTech), underpinned by public digital infrastructure such as Aadhaar, the Unified Payments Interface (UPI), and the Jan Dhan–Aadhaar–Mobile (JAM) trinity, has reshaped how rural micro-enterprises transact, save, borrow, and insure. This paper synthesizes primary source data from the Reserve Bank of India (RBI), the World Bank's Global Findex Database 2025, the Union Budget 2025-26, and supporting industry and academic literature to examine the channels through which FinTech affects rural economic development, with a specific focus on micro-enterprises. It finds that FinTech has meaningfully expanded the access and usage dimensions of financial inclusion the RBI's Financial Inclusion Index (FI-Index) rose from 43.4 in March 2017 to 67.0 in March 2025 and that India's financial account ownership reached 89 percent in 2024 according to the World Bank, up from 35 percent in 2011. At the same time, the same Global Index data show that 16 percent of Indian account holders remain inactive, four times the average for peer low and middle income economies, underscoring a persistent gap between formal access and meaningful usage. On the credit side, the Union Budget 2025-26 introduced targeted measures a Grameen Credit Score framework for rural borrowers, an expanded credit guarantee cover for micro and small enterprises, and Udyam-linked credit cards for micro-enterprises aimed directly at narrowing the estimated ₹20–30 lakh crore MSME credit gap. The paper concludes with policy implications for regulators, financial institutions, and rural development practitioners, and outlines an agenda for future empirical research.

KEYWORDS: FinTech, Financial Inclusion, Rural Development, Micro-Enterprises, MSME, India, digital lending, UPI, RBI, Global Findex, Union Budget

1. INTRODUCTION

Rural micro-enterprises small, often family-run units engaged in trade, agro-processing, handicrafts, dairy, and allied services form the backbone of non-farm rural livelihoods in India. As of February 2025, the Udyam Registration Portal recorded 5.93 crore (59.3 million) registered MSMEs, providing employment to over 25.18 crore (251.8 million) people, with the overwhelming majority classified as micro-enterprises and nearly half located in rural areas. MSME-related products accounted for 45.73 percent of India's total exports in 2023-24. Collectively, this sector is one of the largest sources of non-agricultural rural employment in the country.

For decades, the growth of this sector was constrained by what development economists have called the “missing middle” of rural finance: enterprises too small and informal to be served profitably by traditional bank branches, yet too large and cash-flow-dependent to rely solely on family savings or moneylenders. Physical distance from bank branches, the absence of formal credit histories, lack of collateralizable assets, and low financial literacy compounded this exclusion. As recently as 2011, only 35 percent of Indian adults held a formal financial account, according to the World Bank's Global Findex Database.

The emergence of FinTech broadly, the application of digital technology to the design and delivery of financial services has altered this landscape. India's approach has been distinctive in that FinTech innovation has been built on top of a public digital infrastructure stack (sometimes called “India Stack”), rather than emerging purely from private-

sector innovation. Aadhaar-based digital identity, the JAM trinity (Jan Dhan bank accounts, Aadhaar, and mobile connectivity), UPI for real-time payments, and newer consent-based data-sharing frameworks such as the Account Aggregator (AA) system have together lowered the fixed costs of extending financial services into rural and semi-urban markets. Government fiscal policy has reinforced this technological push: the Union Budget 2025-26, presented by Finance Minister Nirmala Sitharaman on February 1, 2025, introduced a dedicated Grameen Credit Score framework, an expanded MSME credit guarantee cover, and Udyam-linked credit cards specifically targeted at improving formal credit access for micro-enterprises and rural borrowers.

This paper asks two connected questions. First, what evidence drawn directly from RBI data, World Bank surveys, and Union Budget documents exists that FinTech has improved financial inclusion and economic outcomes for rural micro-enterprises in India? Second, what structural and behavioral barriers continue to limit the depth, equity, and sustainability of this impact? The paper proceeds as a synthesis and analysis of authoritative secondary data rather than as a report of new primary fieldwork, and situates these findings within an applied conceptual framework linking FinTech adoption to rural enterprise outcomes.

2. REVIEW OF LITERATURE

Hermuningsih et al. (2023) the study examines the effect of fintech adoption, liquidity, and bank size on the financial performance of 20 Indonesian conventional commercial banks, selected through purposive sampling, during the period 2012-2021 using PLS-SEM and Smart PLS. It finds that the adoption of fintech serves to improve financial performance—specifically, customer account creation, deposits, payment speed, fund transfer, and asset management—and that this impact is more pronounced in larger banks. Other studies also confirm that high liquidity ratios lead to better performance, as well-capitalized banks are supposed to have more deposits and sources of support. We find that larger banks enhance the benefits of fintech on profitability, and utilize more liquidity to enhance the returns through higher opportunities for lending. Based on signaling theory, the study implies the degrees to which trustworthy public reporting significant-sized

Khan (2023), in her opinion, online money transfers among parties using cellphones are made possible in large part by the Unified Payments Interface, also known as UPI, in India. With great potential for growing markets and poor nations, this novel strategy improves the efficiency and accessibility of payment systems. India's digital progress is happening at an astonishing rate as more and more inhabitants of the country use the revolutionary UPI system for making payments. Research will also demonstrate how the UPI system in India has had long-lasting social and sociological ramifications.

Chhina (2026) Through mobile banking, UPI, Aadhaar-enabled services, and digital lending platforms, financial technology (FinTech) has greatly increased financial inclusion in rural India by making banking, digital payments, savings, and credit more accessible. These developments have decreased reliance on conventional banking and increased access to more affordable financial services for marginalized communities. However, obstacles like poor financial and digital literacy, poor infrastructure, gender inequality, and legal concerns still prevent widespread usage. All things considered, FinTech has the potential to close the financial gap in rural areas; but, more robust legislative support, better digital infrastructure, and increased financial literacy among rural residents are needed to achieve inclusive and sustainable growth.

Nagendra & Ramasekhar (2026) analyzing that by creating jobs, lowering poverty, and fostering equitable development, rural MSMEs are vital to India's economic expansion. However, obstacles including collateral requirements, low financial literacy, insufficient banking outreach, and a lack of knowledge about government programs hinder their ability to obtain formal financing, which limits their expansion. Even while programs like CGTMSE, MUDRA Yojana, and fintech-enabled lending have increased credit availability, their effects are still inconsistent due to infrastructural and execution flaws. Financial inclusion can be improved by fortifying digital infrastructure, streamlining legislative frameworks, and encouraging cooperation between the government, financial institutions, fintech businesses, and neighborhood associations. Rural MSMEs may become more resilient, competitive, and sustainable by increasing timely and inexpensive access to financing, which would greatly contribute to India's long-term social and economic growth.

Sharma & Anjum (2026) conceptualized the growth of FinTech and digital financial services has greatly increased financial inclusion in India, yet rural households' financial well-being is not always enhanced by merely having access to financial products. This study offers a conceptual framework that demonstrates how outcomes are influenced by gender as well as elements like digital financial literacy, trust, and efficient utilization. Based on the Sustainable Livelihoods Framework and the Capability Approach, the paper describes how FinTech might enhance household consumption habits and bolster economic resilience. It comes to the conclusion that, in order for digital financial services to produce long-term economic advantages, sustainable rural development necessitates enhancing people's capacities, self-assurance, and inclusivity.

3. OBJECTIVES

1. To identify the factors influencing the adoption and usage of FinTech services among micro-enterprises in rural India.
2. To evaluate the challenges faced by micro-enterprises in rural India in accessing and utilizing FinTech services.

4. CONCEPTUAL FRAMEWORK

- Payments channel digital payment rails (UPI, Aadhaar-enabled Payment Systems) reduce the transaction costs, time, and risk associated with cash handling, and generate a digital transaction trail that can subsequently be used for credit assessment.
- Credit channel digital and cash-flow-based lending (app-based NBFC loans, TReDS invoice discounting, Account Aggregator-enabled underwriting, and the newly announced Grameen Credit Score) expands access to working capital beyond what collateral-based bank lending allows.
- Savings and risk-management channel mobile-linked savings accounts, micro-insurance, and pension products (e.g., PMJJBY, PMSBY, Atal Pension Yojana) allow micro-enterprises to build buffers and manage shocks.
- Formalization channel the digital footprint created by UPI, GST filings, and Udyam registration progressively formalizes micro-enterprises, which in turn improves their eligibility for government schemes and formal credit over time.

5. EVIDENCE AND DISCUSSION

5.1 Access: the RBI Financial Inclusion Index

The RBI's Financial Inclusion Index (FI-Index) is the single most authoritative composite measure of financial inclusion in India. Constructed by the RBI “in consultation with the concerned stakeholders including the Government” and first published in August 2021, the index spans three weighted sub-indices Access (35 percent), Usage (45 percent), and Quality (20 percent) drawing on 97 indicators across banking, investment, insurance, postal, and pension services. According to the RBI's own press release dated July 22, 2025, the FI-Index for the year ending March 2025 stood at 67.0, up from 64.2 in March 2024 a 4.3 percent year-on-year increase with growth recorded across all three sub-indices. The RBI attributes the FY25 improvement specifically to the Usage and Quality dimensions, which it states reflects “deepening of financial inclusion, and sustained financial literacy initiatives.” The index has risen steadily from 43.4 in March 2017, indicating a sustained, multi-year trend rather than a one-off gain.

Table 1: RBI Financial Inclusion (FI) Index in India (March 2017- March 2025)

Financial Year (Ending March)	FI-Index Score	Annual Growth(%)
2017	43.4	-
2018	47.6	9.68
2019	53.9	13.24
2020	53.9	0.00
2021	56.4	4.64
2022	60.1	6.56
2023	64.2	6.82
2024	64.2	0.00
2025	67.0	4.36

Source: RBI Financial Inclusion (FI) Index in India

Table 2: Weightage of RBI FI- Index Components

Dimension	Weight	Coverage
Access	35%	Banking outlets, branches, ATMs, account penetration
Usage	45%	Deposits, credit, digital payments, insurance, pension usage
Quality	20%	Financial literacy, consumer protection, grievance redressal, sustainability of services

Source: Reserve Bank of India (RBI). *Financial Inclusion Index (FI-Index)*: March 2025.

5.2 Access and usage: evidence from the World Bank Global Findex Database 2025

The World Bank's Global Findex Database 2025 the fifth edition of its flagship global survey of financial inclusion, based on nationally representative interviews with roughly 145,000 adults across 141 economies conducted in 2024 provides an independent, internationally comparable benchmark for India's progress. According to the Global Findex 2025, financial account ownership in India reached approximately 89 percent of adults in 2024, up from 77.5 percent in 2021 and just 35 percent in 2011 one of the largest sustained increases in account ownership recorded anywhere in the dataset over that period. India's account ownership rate now sits well above the global average of 79 percent and the average for low- and middle-income economies of 75 percent.

However, the same dataset introduces an important caveat that is central to this paper's argument: account ownership substantially outpaces account usage. The Global Findex 2025 finds that 16 percent of Indian account holders have an account that is effectively inactive, compared with an average of just 4 percent across other low- and middle-income economies a gap the World Bank explicitly flags as unusually large. This is consistent with independent Indian reporting that roughly one-third of accounts opened under the Pradhan Mantri Jan Dhan Yojana (PMJDY) India's flagship financial-inclusion scheme, which has facilitated over 55 crore bank accounts since 2014, with roughly two-thirds in rural and semi-urban areas and just over half held by women have historically remained dormant. Taken together, the RBI and World Bank data point to the same conclusion from two independent sources: India's access problem has been substantially addressed, but a meaningful usage gap persists, particularly relevant to rural micro-enterprises that may hold an account without using it for business related savings, credit, or payments.

On payments specifically, UPI India's real-time payments system is the clearest example of the usage channel closing. UPI transaction volumes rose from a negligible 0.09 million in July 2016 to over 16.7 billion in December 2024, and UPI processed roughly ₹24 lakh crore across 18.4 billion transactions in June 2025 alone, accounting for approximately 85 percent of India's digital payment volume. The World Bank's Global Findex 2025 report explicitly highlights UPI, alongside Brazil's PIX, as a real-time payment system with the potential to close the global financial access gap by enabling low-cost, instant transactions an endorsement from the same authoritative source used to benchmark account ownership above.

5.3 The credit channel: Union Budget 2025-26 measures and the MSME credit gap

Despite improvements in payments and account access, the credit channel remains the most binding constraint for rural micro-enterprises. Estimates of the aggregate MSME credit gap in India cluster in the range of ₹20–30 lakh crore, with only a minority of total MSME credit demand met through the formal financial system; the remainder is met through informal, often high-cost sources such as moneylenders and trade credit. Rural micro-enterprises are disproportionately affected: rural credit gaps have been estimated at roughly 32 percent versus about 20 percent in urban areas, reflecting the sparser density of financial institutions outside cities.

The Union Budget 2025-26 directly targeted this gap with several measures, announced by Finance Minister Nirmala Sitharaman in her budget speech of February 1, 2025, and subsequently detailed in Press Information Bureau (PIB) factsheets from the Ministry of MSME and the Department of Financial Services:

- Grameen Credit Score framework a new, dedicated credit-scoring framework intended specifically to improve access to credit for rural borrowers and self-help group (SHG) members, addressing the thin-credit-file problem that has historically excluded rural micro-entrepreneurs from formal underwriting.
- Expanded credit guarantee cover for micro and small enterprises raised from ₹5 crore to ₹10 crore, which the government estimates will unlock an additional ₹1.5 lakh crore in credit over the next five years.

- Udyam-linked customized credit cards a new scheme offering micro-enterprises registered on the Udyam portal a ₹5 lakh credit limit, with 10 lakh cards targeted for issuance in the first year and no processing fee charged to borrowers.
- Revised MSME classification thresholds investment limits raised 2.5 times and turnover limits raised 2 times, widening the population of enterprises eligible for MSME-linked credit and support schemes.
- A dedicated scheme for first-time entrepreneurs, including women and Scheduled Caste/Scheduled Tribe entrepreneurs, offering term loans of up to ₹2 crore over five years, explicitly built on lessons from the earlier Stand-Up India scheme.

These measures complement, rather than replace, the digital lending infrastructure discussed in the literature: the Account Aggregator framework, TReDS invoice discounting, and the Open Credit Enablement Network (OCEN) continue to provide the underlying data and settlement rails, while the FY26 Budget adds a rural-specific credit-scoring mechanism and direct fiscal support (guarantee cover, subsidized-fee credit cards) layered on top. Industry estimates suggest digital lending disbursement more broadly has grown from roughly USD 9 billion to close to USD 110 billion over a seven-year period; however, much of this growth has concentrated in urban and semi-urban lending, and the rural-specific Grameen Credit Score framework announced in Budget 2025-26 is a direct policy acknowledgment that generic fintech credit-scoring models have not yet closed the rural gap on their own.

5.4 Microfinance as a complementary channel

For the smallest, most informal rural enterprises frequently women-led microfinance institutions (MFIs), rather than digital lending apps, remain the dominant formal credit channel. The sector has grown at approximately 28 percent CAGR between FY2014 and FY2024 and reaches unique borrowers in the large majority of India's districts, with roughly 37 percent rural coverage. FinTech has entered this space both as a complement (digital disbursement, repayment via UPI, alternative-data credit scoring) and, more recently, as a source of competitive and regulatory pressure: the 2022 removal of interest-rate caps improved pricing flexibility but coincided with rising borrower over-leverage and multiple lending across institutions, prompting the RBI to introduce (and subsequently reinforce) income and indebtedness assessment requirements. This illustrates an important tension in the FinTech-and-inclusion narrative: technology that lowers the cost of extending credit can, absent adequate data-sharing and underwriting discipline, also lower the cost of over-lending.

5.5 Savings, insurance, and risk management

Micro-insurance and pension schemes distributed through digital rails the Pradhan Mantri Jeevan Jyoti Bima Yojana (life cover), Pradhan Mantri Suraksha Bima Yojana (accident cover), and the Atal Pension Yojana have achieved substantial enrollment (tens of crores of beneficiaries collectively), providing rural micro-entrepreneurs with a basic risk-management layer that was largely unavailable through informal channels. These schemes are a further illustration of the JAM-trinity model: Aadhaar-based identity and Jan Dhan accounts allow low-cost, direct enrollment and claims disbursement at a scale that would be difficult to achieve through physical distribution alone.

5.6 Persistent barriers

Across the RBI, World Bank, and Union Budget data reviewed, four barriers recur most consistently:

- A quantified usage gap. The World Bank's finding that 16 percent of Indian accounts are inactive four times the peer-country average is direct, internationally benchmarked evidence that access has outpaced usage, particularly relevant to rural micro-enterprises that may be nominally banked but not actively using accounts for business purposes.
- Uneven last-mile infrastructure. Banking correspondent density, connectivity, and micro-ATM coverage remain uneven across states and, in particular, are weaker in the North-East and tribal districts.
- Thin or absent formal credit histories. Even with alternative-data underwriting, many rural micro-enterprises operate largely in cash and lack the digital transaction trail that cash-flow-based lending models rely on the specific gap the Grameen Credit Score framework is designed to address, though as a Budget 2025-26 announcement, its measurable impact on rural credit access will only be observable in subsequent RBI and World Bank data releases.
- Gender and social-group disparities. Female-owned and SC/ST owned micro-enterprises face measurably larger credit gaps than their counterparts, despite targeted schemes (Stand-Up India, the Budget 2025-26 first-time entrepreneurs scheme, Mahila Samriddhi Yojana) aimed at narrowing this divide.

6. POLICY IMPLICATIONS

Table 3: Key Policy Implications for Strengthening Rural Financial Inclusion

Policy Area	Key Evidence	Policy Implication
Account Usage	Around 16% of adults with financial accounts made no deposits or withdrawals in the previous year.	Monitor account usage and dormancy alongside account opening statistics.
Rural MSME	Approximately 32% of rural MSMEs continue to face unmet formal credit demand.	Expand Grameen Credit Score and improve credit assessment for rural borrowers.
Digital Credit Infrastructure	Account Aggregator(AA), OCEN,TReDS,Udyam Registration and GST enable digital credit assessment.	Integrate digital infrastructure with business formalization initiatives.
Borrower Protection	Post 2022 microfinance sector experienced rising borrower over-indebtedness.	Strengthen borrower protection and shared credit information systems.
Women & SC/ST Entrepreneurs	Union Budget 2025-26 introduced loans up to 2crore for first-time women and SC/ST entrepreneurs over five years.	Monitor implementation and actual uptake across rural regions.

Source: World Bank, Global Index Database 2021, NITI Aayog (2022), SIDBI MSME Reports, RBI; Ministry of Finance, Union Budget 2025-26

Table 4: Budget 2025-26 Measures for Rural Financial Inclusion

Initiative	Objective	Target Group	Expected Impact
Grameen Credit Score	Alternative credit assessment using digital financial data	Rural borrowers, SHGs, small entrepreneurs	Improve access to formal credit
Udyam Credit Card	Expand working capital support	Registered MSMEs	Increase institutional lending
Account Aggregator(AA)	Consent based financial data sharing	Individuals and MSMEs	Faster loan processing
OCEAN	Open digital lending ecosystem	Small Businesses	Expand digital credit delivery
TReDS	Invoice discounting platform	MSMEs	Improve working capital
2 Crore Loan Scheme	Financial support for first time entrepreneurs	Women and SC/ST entrepreneurs	Promote Inclusive entrepreneurship

8. FINDINGS

- Financial inclusion in India has improved significantly, as reflected by the RBI Financial Inclusion Index (FI-Index), which increased from 43.4 in March 2017 to 70.0 in March 2025, indicating sustained growth in access, usage, and quality of financial services.
- Financial account ownership has expanded rapidly, with the World Bank Global Findex 2025 reporting that 89% of Indian adults owned a financial account in 2024, compared to 35% in 2011, surpassing both the global average (79%) and the average for low- and middle-income economies (75%).
- Despite high account ownership, effective usage remains a challenge, as 16% of account holders have inactive accounts, and nearly one-third of PMJDY accounts have historically remained dormant, highlighting the gap between financial access and meaningful financial participation.
- The MSME credit gap continues to be substantial, estimated at ₹20–30 lakh crore nationally, with rural MSMEs facing a 32% credit gap compared to 20% in urban areas, while women-owned MSMEs experience an even higher gap of approximately 35%.
- The Union Budget 2025–26 introduced several initiatives to improve rural credit access, including the Grameen Credit Score, expansion of the MSME Credit Guarantee Scheme (₹5 crore to ₹10 crore), Udyam Credit Cards (₹5 lakh limit), revised MSME classification criteria, and a ₹2 crore loan scheme for first-time women and SC/ST entrepreneurs.

- Digital lending has expanded rapidly, increasing from approximately USD 9 billion to USD 110 billion in disbursements over the past seven years; however, its benefits remain concentrated in urban and semi-urban regions, leaving significant rural financing gaps.
- Persistent barriers, including inactive financial accounts, inadequate last-mile digital infrastructure, limited formal credit histories among rural enterprises, and gender and regional disparities, continue to restrict the full impact of FinTech on rural micro-enterprises.

9. CONCLUSION

FinTech, operating through India's distinctive public digital-infrastructure model and reinforced by targeted fiscal policy, has materially expanded the access and usage dimensions of financial inclusion for rural India. Two independent authoritative sources confirm this: the RBI's own Financial Inclusion Index rose from 43.4 in 2017 to 67.0 in March 2025, Further more India's Financial Inclusion Index (FI-Index) rose to 70.0 in March 2026, up from 67.0 in March 2025, reflecting a 4.48% annual growth driven largely by higher customer usage of formal financial services and the World Bank's Global Findex 2025 independently recorded account ownership rising to 89 percent in 2024 from 35 percent in 2011. Yet the same World Bank data reveal that 16 percent of Indian accounts remain inactive a usage gap four times the peer-economy average and the Union Budget 2025-26's introduction of a dedicated Grameen Credit Score framework is itself government acknowledgment that the rural MSME credit gap, estimated at ₹20- 30 lakh crore nationally, has not been closed by digital infrastructure alone. FinTech should therefore be understood as a necessary but not sufficient condition for rural economic development: its benefits are realized most fully when paired with continued investment in digital and financial literacy, last-mile infrastructure, borrower-protection safeguards, and the formalization support that schemes like the Grameen Credit Score and Udyam-linked credit cards are now beginning to provide for the millions of micro-enterprises that remain at the margins of India's financial system.

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