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# In-Pro: Quarterly Dispatch on Financial Inclusion & Social Protection


## IN FOCUS: LET'S TALK ABOUT NANO-ENTERPRISES

5 mins read

Most of us interact with a nano-enterprise almost every day. It could be for buying grocery from the nearby kirana store, getting mobile phone repaired at a local shop, or stopping for a cup of tea at a roadside tapri. These businesses are deeply embedded in our communities, often acting as the first point of access for essential goods and services. Despite their ubiquity and importance in everyday life, our understanding of these enterprises remains surprisingly limited. This is partly because nano-enterprises do not have a distinct place in India's official enterprise classification system. As a result, this vast and diverse segment is often hidden within broader categories – visible in everyday life but invisible from official data.

### What is a nano-enterprise?

Nano-enterprises are a subset within the MSME (Micro, Small & Medium Enterprises) sector that typically have a turnover of less than ₹1 crore annually and employ up to 5 workers. Many of them are informal, primarily dealing in cash transactions, and are typically outside the purview of the GST regime. Currently, India lacks a statutory definition for a "nano-enterprise." Under the MSME Act, the smallest recognized category is a micro enterprise, defined as having turnover up to ₹5 crore. As a result, small businesses that we refer to as nano-enterprises are subsumed within the broader micro-enterprise category, making it difficult to accurately measure their scale and specific economic characteristics. According to ASUSE 2023–24 microdata, India has more than 7 crore nano enterprises. This highlights the sheer scale of this segment since it implies that nearly 99% of micro-enterprise are in fact nano-enterprises.

### How does their everyday financial life look like?

As mentioned earlier, nano-enterprises are omnipresent both in rural and urban India with typical examples of kirana stores, textile & garment retailers, hardware shops, dairies, etc. Many of them are run by solo entrepreneurs who continue to rely on non-digital tools such as physical ledger books and cash-based transactions for their day-to-day operations.

The everyday financial life of a nano-enterprise owner is characterized by high informality, variable cash flows, and tightly intertwined personal and business finances. They operate primarily at a hyper-local level as 'own-account enterprises', meaning that they employ no workers and rely on family members for their daily operations. Managing daily cash flow is a major challenge because owners frequently treat their funds as fungible, routinely diverting daily business capital to meet immediate household expenses. Nevertheless, customer-facing transactions (B2C) are increasingly digitising with a growing share of nano-enterprises adopting digital methods like UPI to receive payments.

### What are the major challenges faced by this segment?

One of the major policy challenges with regard to nano-enterprises is that they remain peripheral to the formal financial system. As a result, they rarely access formal credit due to stringent collateral requirements, complex documentation procedures, and a lack of formal business registration. They primarily need credit for working capital and to expand their business activities.

They primarily need credit for working capital and to expand their business activities. In the absence of formal credit, they rely heavily on informal networks such as local moneylenders to finance their needs. However, nano enterprises operate on thin profit margins, making them particularly sensitive to the cost of credit. As a result, high interest rates (from informal credit) are often unsustainable and can undermine their financial viability and long-term growth prospects.

The potential credit market for nano-enterprises in India is estimated to range from ₹3.8 lakh crore (US$42 billion) to ₹15.5 lakh crore (US$172 billion). Nevertheless, nano-enterprises display considerable heterogeneity in their need for credit. Hence, the central challenge is not merely expanding credit supply but identifying which enterprises require credit and what type of credit is most suitable for them. To illustrate, nano-enterprises can range from subsistence level operations to emerging growth-oriented ones (See Figure 1). While the former may be well served by interventions aimed at improving access to formal finance, such as credit guarantees or grants, the latter would likely benefit from more tailored financial products like micro-equity for fixed capital investments and cash-flow based loans for working capital.

This heterogeneity among nano-enterprises is often overlooked by both policymakers and financial institutions. As a result, many of the financial products available are designed around a one-size-fits-all approach meaning they are poorly aligned with the day-to-day business realities of a large number of nano-enterprises. This sometimes results in adverse outcomes, such as leaving subsistence enterprises burdened with debt that they have limited capacity to absorb.

### What could be the possible solution?

Realizing the growth potential of nano-enterprises will require a combination of regulatory reforms and product innovation by lenders. The key challenge is to make small-ticket lending commercially viable at scale. Emerging models such as cash flow-based lending, supported by alternative data sources, offer a promising pathway to expand credit access while managing risk to the lender. Bringing nano-entrepreneurs to mainstream could not only help to create more sustainable livelihoods but also advance financial inclusion and economic development goals.

**Figure 1: An Illustrative example of different profiles of nano enterprises**

| Category | Examples | Characteristics |
| --- | --- | --- |
| Subsistence, New to Credit | Small businesses like Tailoring units; Home-based nano-enterprises like small *kirana* stores | Informal operations, cash-based, lack documentation, stable but small cash flows |
| Growth Oriented | Urban HWEs in competitive retail like Textile shops; Digitally registered nano-enterprises like street vendors | Formalized, collateralized, high credit scores, but volatile markets/thin margins |

## Related Readings:

- Mapping India's Informal Enterprises: A Descriptive View from ASUSE
- Heterogeneity in India's Nano-Enterprises: A Heuristic for Delivery of Suitable Credit
- Financing the Unseen: Blended Finance for Nano Enterprises - Dvara Research
- How Big is the Size of Nano-enterprise Credit Market in India

> Nano enterprises rarely dominate the headlines but once you start noticing them much of what we call economic growth begins to look like a story about them. Unlocking the economics of small-ticket lending could be a key enabler of sustainable growth for these enterprises.

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## Publications from the Quarter

**(April-June 2026)**

**Research Paper:**

- Taking Ideas And Discourses Seriously: A Discursive Institutionalist Perspective On Social Protection Policy In India

**Research Report:**

- Advancing Women's Entrepreneurship: The Role Of Digital Money Management Tool

**Position Paper:**

- Reframing Financial Health: From Canary In A Coal Mine To A Thermostat For Action

**Series of blogs on Microfinance:**

- Part1: What Is Actually Happening In The Microfinance Sector?
- Part 2: Microfinance Beyond Lending: Looking At Emerging Claims
- Part 3: Methodological Concerns In Measuring Microfinance Outcomes

**Blogs:**

- Mitigating AI-Related Harms In Finance: From Model Governance To Systemic Resilience
- From Claude To Daybreak: What's Next For AI Policy In Finance?
- Are The Determinants Of Financial Inclusion Always Manipulable And Rankable? A Novel Framework For Examining Financial Inclusion Interventions

**Opinion:**

- Microfinance Needs Reform More Than Credit Backstops If India Wants To Avert Another Crisis In This Sector
- Remedies for Digital Payment Frauds

**Consultation Responses:**

- Comments To Draft Reserve Bank Of India (Commercial Banks – Responsible Business Conduct) Amendment Directions, 2026, Dated 6 March 2026
- Comments to the Discussion Paper – Exploring safeguards in digital payments to curb frauds
- Comments on the Draft Amendment Directions Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation, Dated 10 April 2026
- Submission to International Finance Corporation (World Bank Group) for the inclusion of risks of over-indebtedness and debt distress among microfinance borrowers, in its Environmental and Social (E&S) Framework
- Comments on Draft Amendment Directions on 'Conduct of Regulated Entities in Recovery of Loans and Engagement of Recovery Agents', Dated 20th May 2026