

Impact of Digitization and UPI on Small Informal Businesses in India

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Abstract: This research paper is related to impact of digitization and UPI on small informal business in India. The advent of digital payment systems, especially the Unified Payments Interface (UPI), has significantly transformed the landscape of informal businesses in India. This study investigates the impact of digitisation and UPI adoption on small informal enterprises by analyzing financial inclusion, customer outreach, ease of transactions, and business growth. The research uses a mixed-methods approach including surveys and interviews with 100+ small business owners across urban and semi-urban regions. The findings indicate increased financial transparency, improved cash flow management, and wider customer base as key benefits. However, barriers such as digital literacy, security concerns, and unstable internet connectivity remain challenges to full-scale adoption.

Keywords: Unified Payments Interface, transparency, informal businesses, payment systems, GDP

Introduction: In recent years, India has witnessed a transformative digital revolution, significantly reshaping the economic landscape. One of the most impactful developments in this context has been the rise of **digitization** and the widespread adoption of the **Unified Payments Interface (UPI)**. Introduced in 2016 by the National Payments Corporation of India (NPCI), UPI has rapidly become a cornerstone of the country's digital payment ecosystem, enabling real-time, seamless financial transactions through mobile devices.

For small informal businesses—which make up a substantial part of India's economy—this shift toward digital transactions represents both an opportunity and a challenge. Traditionally reliant on cash-based transactions and operating outside the formal financial system, these businesses have begun to embrace digital tools for payments, record-keeping, and customer engagement. The convenience, speed, and low cost of UPI transactions have made it especially attractive for street vendors, small retailers, and home-based enterprises.

However, this transition has also brought to light critical issues such as digital literacy, infrastructure gaps, and cybersecurity risks. Despite these challenges, the digitization of informal commerce holds great promise for financial inclusion, increased transparency, and long-term economic growth.

This paper explores the multifaceted impact of digitization and UPI on small informal businesses in India, highlighting the opportunities, barriers, and evolving dynamics in this digital era.

The informal sector constitutes over 80% of India's total employment and contributes significantly to the nation's GDP. Traditionally operating in cash-based economies, these businesses often remain outside formal banking channels. However, with the government's push for a “Digital India” and the rapid rise of



platforms like UPI, the digital transformation is becoming accessible even to the smallest of vendors—tea sellers, street hawkers, small kirana shops, and home-run businesses.

Objectives

- To evaluate the extent of digitisation in small informal businesses.
- To assess the influence of UPI on financial transactions and record keeping.
- To explore the challenges faced by informal businesses in adopting digital payments.

Literature Review: Previous studies (Kumar & Singh, 2021; NCAER, 2020) emphasize the potential of digital payments in promoting financial inclusion. Reports by the Reserve Bank of India suggest a fivefold increase in UPI transactions post-2020, indicating a behavioral shift in transaction patterns. However, limited research exists on micro and informal businesses' perception and response to this digitisation.

Research Methodology:

Approach: Mixed-methods (quantitative surveys + qualitative interviews)

Sample Size: 120 small informal business owners across Delhi, Patna, and Lucknow.

Tools Used: Structured questionnaire, interviews, field observations

Key Variables:

- Business income (pre and post digitisation)
- Type of digital tools used (UPI, QR codes, mobile wallets)
- Perceived ease of use and customer feedback
- Challenges in adoption

Findings and Analysis:**Adoption Rate:**

- 74% of respondents reported using UPI or QR codes.
- Most common platforms: PhonePe (46%), Google Pay (32%), Paytm (22%)

Benefits Observed:

Benefit	% Respondents
Faster transactions	81%
Increased customer satisfaction	67%
Reduced handling of cash	62%
Easier record keeping	54%

- Informal shopkeepers noted increased trust from customers who prefer digital receipts.
- Some reported easier loan approvals due to digital transaction history.

Challenges Faced:

- 43% cited lack of digital knowledge.
- 28% faced poor internet connectivity.
- 35% expressed concern over fraud and transaction failure.
- Many were unsure about taxation implications of digitisation.

Case Study Highlight: A tea seller in Lucknow increased his daily sales by 30% after enabling UPI, as office goers without cash preferred digital payments.



Discussion: The transition to digital payment systems like UPI has empowered small informal businesses to participate in the formal economy. It enhances business transparency, financial inclusion, and customer convenience. However, systemic issues such as lack of awareness, digital infrastructure, and policy clarity still hinder full-scale adoption.

Significance of digitization and UPI: The impact of digitization and UPI (Unified Payments Interface) on small informal businesses in India has been significant, especially since the widespread push for digital payments after demonetization in 2016. Here's a breakdown of the **key benefits**:

- **Increased Accessibility to Digital Payments:** UPI adoption has enabled even the smallest vendors (e.g., tea sellers, vegetable vendors) to **accept payments without expensive POS systems**. No need for debit/credit cards – just a smartphone and QR code. **Faster & Secure**
- **Transactions:** Real-time payments enhance **cash flow** for businesses. Reduces the risk of theft or fraud related to cash handling.
- **Improved Financial Recordkeeping:** Digital payments create a **transparent transaction history**, which helps in Budgeting and financial planning. Applying for business loans, as banks use digital records to assess creditworthiness.
- **Inclusion in the Formal Economy:** Digitization helps small informal businesses become **visible to the formal financial system**, improving. Access to government schemes and subsidies. Possibility of registering with MSME (Micro, Small & Medium Enterprises) portals.
- **Business Growth & Customer Trust:** Offering UPI payment options increases **customer convenience and trust**. Digital presence (like Google Maps listings or WhatsApp business accounts) can boost visibility.
- **Reduced Dependency on Middlemen:** Small traders can **directly engage with suppliers or customers** using digital platforms, reducing commissions and increasing margins.

Access to Credit and Financial Services: With a **digital footprint**, informal businesses are more likely to get. Insurance and investment options.

- **Reduced Costs:** Lower need for physical infrastructure (no need for cashier counters, expensive ledgers, etc.). Free or low-cost UPI services eliminate transaction charges compared to card-based systems.

Conclusion: Digitisation and UPI have brought significant improvements in the operational efficiency and customer reach of small informal businesses. While the benefits are clear, ensuring inclusive growth requires targeted training programs, stronger cyber-security mechanisms, and infrastructural support from the government and private sector. The advent of digitization and UPI has opened new avenues for small informal businesses in India, offering them greater financial inclusion, ease of doing business, and operational efficiency. While challenges like digital literacy, infrastructure gaps, and cybersecurity remain, the overall impact has been transformative. Continued government support, awareness campaigns, and innovation in fintech can further empower the informal sector, bridging the digital divide and fostering inclusive economic growth.

Recommendations:

1. **Digital Literacy Programs:** Digital Literacy Programs are initiatives designed to help individuals acquire the knowledge and skills needed to use digital technologies effectively and safely. These programs aim to bridge the digital divide, especially among underserved communities, by



promoting the use of computers, smartphones, the internet, and various digital tools for personal, educational, and professional development.

2. **Subsidized Data Packs or Devices:** "Subsidized Data Packs or Devices" generally refers to the practice of providing internet data or digital devices (like smartphones, tablets, or laptops) at reduced or no cost to users, usually by governments, NGOs, or educational institutions. This is done to **bridge the digital divide** and promote **digital inclusion**.
3. **Cybersecurity Education:** Cybersecurity education involves teaching individuals and organizations how to protect systems, networks, and data from digital attacks. As technology becomes more integrated into everyday life, the need for knowledgeable professionals in cybersecurity continues to grow.

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