



## Impact of Digital Payment Systems on Financial Inclusion and Small Business Growth in India

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### Abstract

The Indian Digital payment systems have emerged as a major agent of financial innovation and greatly affected financial inclusion and development of small firms. In this paper, the researcher sought to investigate the effects of adoption of digital payments on access to financial services and performance of small businesses. The research design adopted was descriptive in nature and primary data were gathered through the use of an organized questionnaire which comprised 70 respondents on a basis of 5-point Likert scale. The results indicated that most of the respondents were conversant with the digital payment systems and that they regarded them as helpful towards improving financial inclusion and growing the business. Digital payment helped to make transactions quicker, manage finances better, and was more convenient to customers. Nevertheless, the inability to be digitally literate, network problems and security were found to be significant barriers to successful adoption. The research reached the conclusion that the digital payment system has positively impacted the inclusive economic growth; however, specific measures are necessary because of the current issues and the need to make sure that all segments are adequately covered.

**Keywords: Digital Payment Systems, Financial Inclusion, Small Business Growth, UPI, Digital Economy, India**

### 1. INTRODUCTION

Digital payment systems have become a disruptive element in the Indian financial ecosystem, especially within the past decade, thanks to policy efforts, including Digital India, demonetization (2016), and the mushrooming of fintech innovations. The emergence of smartphones, affordable data connection, easy payment interfaces such as UPI, mobile wallets, and internet banking has greatly contributed to the transition of cash-based to cashless economy. Such developments have not only made financial transactions easier but also made the financial system more transparent, cost-effective in transactions and efficient in general. Consequently, online payments have been incorporated into the economic modernization and system of governance in India.

Financial inclusion has been a burning goal among Indian policymakers, as they seek to offer equal access of financial services by the population including banking, credit, insurance and savings, to limits of the underserved and marginalized groups. Conventional banking systems usually did not access the rural and low-income population because of the constraints of infrastructure and procedures. Nevertheless, the digital payment systems have been critical in breaking these barriers through facilitating direct benefit transfers (DBT), mobile banking and easy digital transactions. The digital payments have enabled people to be included in the formal financial system by minimizing the requirement of physical banking facilities and records, which in turn encourage economic inclusion and social justice.

MSMEs form the core of the Indian economy and play a very important role in providing employment, GDP and development of a specific region. The introduction of digital payment systems has opened up new frontiers to these enterprises to increase their market sizes, ease operations, and enhance the financial management practices. Online transactions facilitate improved record management, increased transparency, and financial histories, which is essential to seeking formal credit and investment opportunities. In addition, the customer satisfaction and sales volume due to the convenience provided to the customers in terms of cashless payment options has enabled the business to expand and compete in an already digital market.

The absence of digital skills, the safety of cyberspace, and the ineffectiveness of the Internet



connection and the reluctance to alter the technology are the important barriers. In addition, the absence of trust and the risk of fraud and data privacy are also factors that reduce the use of digital payments. Therefore, it is essential to analyze critically the impact of digital payment systems on financial inclusion and the growth of small enterprises in India and comment on the structural and behavioral problems that influence their adoption and performance.

## 2. LITERATURE REVIEW

**Apasrawirotea and Yawisedb (2021)** considered the variables that influenced the implementation of the e-payment systems by the small and medium enterprises and found out that the most significant variables that influenced the adoption behaviour were the perceived usefulness, ease of use, and trust. The researchers indicated that the companies were more likely to apply the digital payment solutions to the case when they understood the evident benefits connected to the speed of the transactions, the increased efficiency and customer convenience. It also brought out the technological preparedness and familiarity to technology as significant to adoption choices. Nonetheless, the authors also reported that security issues and the absence of technical skills were also pressing challenges especially in the developing economies thus restricting the overall usability of digital payment systems towards enhancing business development.

**Ligon et al. (2019)** investigated the reasons the small-scale merchants in Jaipur, India, use digital payment technologies infrequently and identified certain behavioral and structural constraints. The analysis found that even though there were digital payment infrastructure, most merchants still favored cash as they are used to dealing with it, they do not trust the online systems, and are afraid of a transaction failure. Also, low awareness, lack of digital literacy, and transaction cost issues were established to limit adoption. This is because, although the digital payment systems showed high potential to achieve financial inclusion, the authors suggested that specific policy interventions and awareness campaigns were required to overcome such obstacles and promote the use of digital payment systems by the general population.

**Phatak (2023)** surveyed of the effects of the digital payment adoption among the small businesses in India and discovered that the digital payment usage and its effects on the business performance have a strong positive relationship. The paper has indicated that firms where digital payments were introduced enjoyed a higher rate of customer satisfaction, efficiency in operations, and financial management. It further underscored that online transactions had the effect of increasing volume of sales since they provided convenience and various payment methods to clients. In addition, the study further revealed that electronic payment systems increased financial inclusion by helping enterprises to create transaction history, which helped them to access formal credit and other financial services. The research made the conclusion that digital payment adoption was one of the major growth and sustainability forces among small businesses in the Indian context.

## 3. RESEARCH METHODOLOGY

In this part, the systematic strategy employed in the determination of the impact of the digital payment systems on financial inclusion and small business development in India is provided. It provides a succinct outline of the research design, sample structure, data collection methods, data collection tools and data analysis methods. The methodology grounds on the principles of reliability, validity, and accuracy of findings that will enable the comprehensive research of the research problem.

### 3.1 Research Design

The research design was a descriptive research design because the objective of the research was to conduct a study and report on the current standing of the digital payment systems regarding financial inclusion and the small businesses. It was believed that this design was appropriate as it would enable the collection of quantitative data and enable the researcher to describe the patterns,



relationships, and trends of the variables between the variables without controlling the research setting.

### 3.2 Sample Size and Population

The sample was a group of small business proprietors such as retailers, shopkeepers, and service providers who conducted business in urban and semi-urban India. The respondents were chosen via a convenience sampling method because of time and availability limitations hence the number of respondents used was 70. The sampled sample was relevant to the study objectives as it included businesses that were either using or had some experience in using the digital payment systems.

### 3.3 Data Collection

Data applied in the study consisted of both primary and secondary data. The direct collection of primary data was done through the help of a structured questionnaire as a part of the respondents to evaluate their perception, experience, and usage patterns of digital payment systems. In order to be able to enforce the theoretical understanding of the issue and the contextual analysis of the same, secondary information was gathered on the basis of academic journals, research articles, government publications among other credible sources.

### 3.4 Data Collection Tools and Instruments

A structured questionnaire was the key data collection instrument. The questionnaire would gauge the perceptions of the respondents towards various issues such as but not limited to the awareness, use, financial inclusion and business growth using the 5-point Likert scale, that is, strongly agree to strongly disagree. The questionnaire had closed-ended questions to be quantitatively analyzed as well as some demographics to get to know the portrait of the respondents. The pre-test of the questionnaire was aimed at providing clarity, reliability and validity.

### 3.5 Data Analysis

The descriptive statistical tools were used to analyze the data collected. The responses employed the methods of frequency distribution, percentage analysis and mean scores to explain the responses. The data were tabulated, therefore, making it easy to understand and compare. The purpose of the review was to define the trends and patterns in the context of the impact of the digital payment systems on the performance of small businesses and financial inclusion.

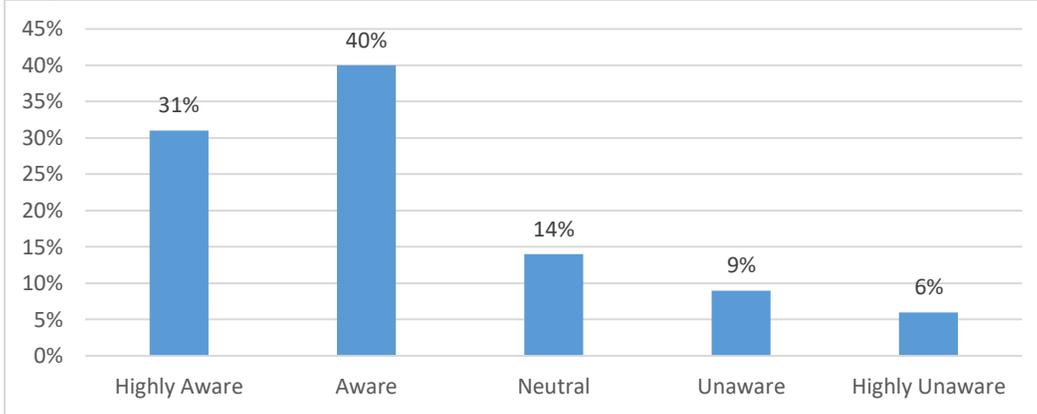
## 4. RESULTS AND DISCUSSION

This paper includes the discussion and interpretation of the research findings of 70 interviewees in order to address the question concerning how digital payment systems affect financial inclusion and the development of small businesses in India. The results are properly arranged and structured in table and other related figures to make them easy to follow and comprehend. All the tables emphasize a particular aspect of the research, such as the level of awareness, financial inclusion, business growth, as well as the obstacles to adoption. The analysis will explain the findings to establish the key trends, patterns, and implications that can be significant revelations on how digital payment systems can be used to revolutionize the financial and business environment.

Table 1 demonstrates the allocation of the respondents according to their degree of awareness on digital payment systems, highly aware, aware, neutral, unaware and highly unaware, in the order of their frequency and percentage. These awareness levels are visualized in Figure 1 which shows the general distribution of familiarity of respondents about digital payment systems.

**Table 1: Awareness of Digital Payment Systems**

Awareness Level	Frequency	Percentage
Highly Aware	22	31%
Aware	28	40%
Neutral	10	14%
Unaware	6	9%
Highly Unaware	4	6%
<b>Total</b>	<b>70</b>	<b>100%</b>



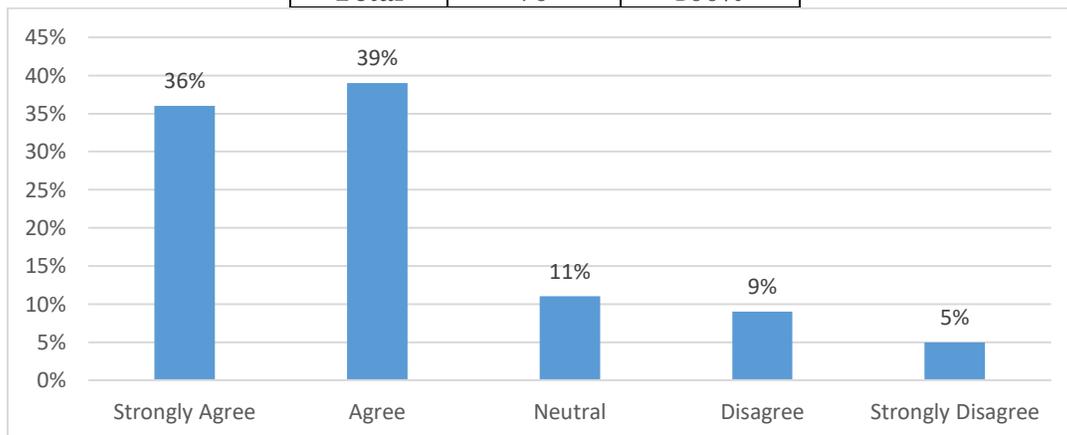
**Figure 1: Visual Representation of Awareness of Digital Payment Systems**

The findings indicate that the majority of the respondents were aware of the digital payment system with most (31 percent) being the most aware and the majority (40 percent) being aware. During the meantime, 14% of the respondents were neutral, with a lesser percentage unaware (9) and highly unaware (6). It means that the awareness of digital payment systems is quite good among the respondents that has predisposed adoption and usage.

Table 2 indicates the frequency and percentage distribution of the respondents based on their perception of the role of digital payment systems in facilitating the poor to access financial services and services and strongly agree, agree, neutral, disagree, and strongly disagree. Figure 2 graphically presents these answers and indicates how the views mostly fall on the effects of using digital payments to enhance financial inclusion.

**Table 2: Impact on Financial Inclusion**

Response	Frequency	Percentage
S A	25	36%
A	27	39%
N	8	11%
D	6	9%
S D	4	5%
<b>Total</b>	<b>70</b>	<b>100%</b>



**Figure 2: Visual Representation of Impact on Financial Inclusion**

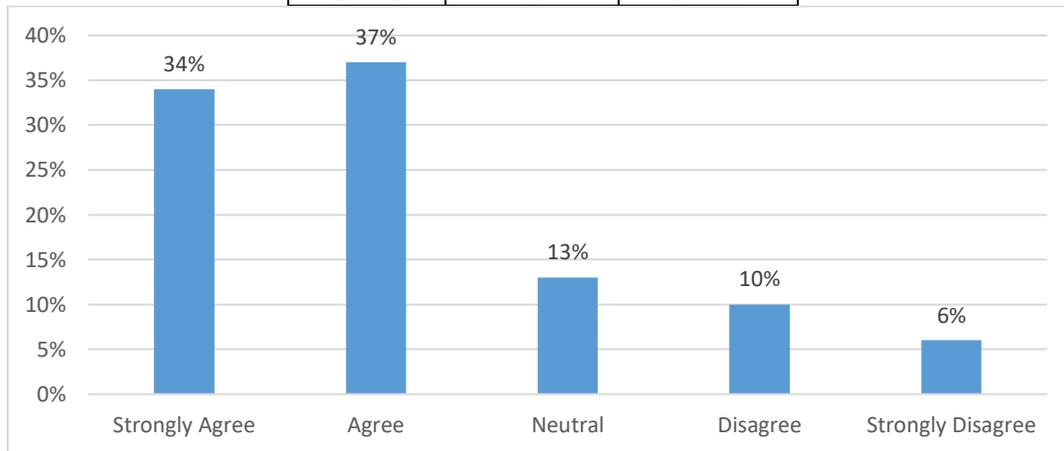
The findings indicate that most of the respondents had a good feeling with 36 percent of them strongly agreeing and 39 percent agreeing to the fact that the digital payment system had enhanced financial inclusion. In the meantime, 11% of the respondents were indifferent, with a lesser proportion disagreeing (9%), or strong disagreeing (5%). This implies that the digital payment systems have played a big role in enhancing access to financial services by the owners of small

businesses.

Table 3 illustrates the distribution of the respondents in respect to their perceptions of the impact of digital payment system on the growth of small business, which are strongly agree, agree, neutral, disagree, and strongly disagree, the frequency of their responses and the percentage of respondents who responded. Figure 3 provides the visual representation of these answers and reflects the overall tendency of the opinion of the respondents on the increased business in respect to the implementation of digital payment.

**Table 3: Impact on Small Business Growth**

Response	Frequency	Percentage
S A	24	34%
A	26	37%
N	9	13%
D	7	10%
S D	4	6%
<b>Total</b>	<b>70</b>	<b>100%</b>



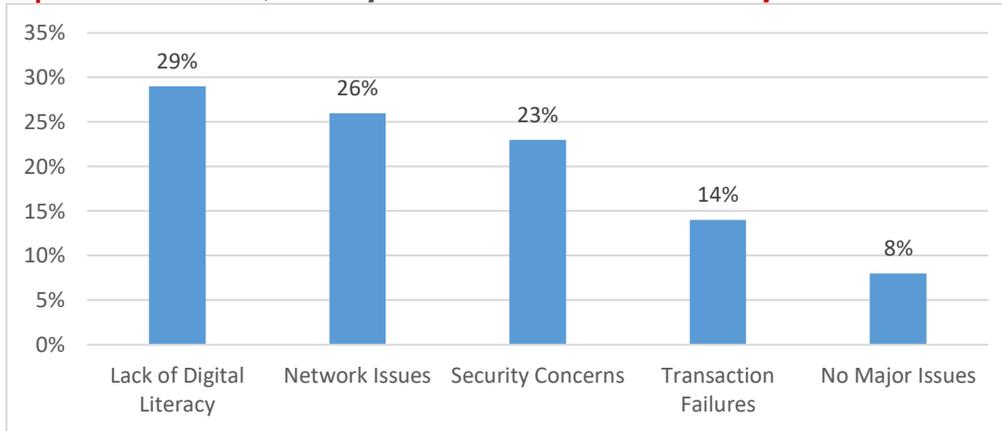
**Figure 3: Visual Representation of Impact on Small Business Growth**

The findings have shown that most of the respondents had positive perception with 34% strongly agreeing and 37% agreeing that digital payment system helped in the growth of small businesses. In the meantime, 13% were neutral, and a smaller percentage were disagreeing (10%) and strongly disagreeing (6%). This is an indication that the use of digital payments has affected the business development in the majority of the cases, despite the fact that some respondents reported minimal or no effects.

Table 4 shows the distribution of respondents in regard to the difficulties during the adoption of digital payment systems, these issues could be categorized into lack of digital literacy, network problems, security, transaction failures, and no serious problems, and the frequency and percentage of their occurrence. These categories are represented in a visual form in Figure 4 as the distribution of the responses on the various challenges encountered by respondents in moving to the digital payment systems are represented.

**Table 4: Challenges in Adoption of Digital Payment Systems**

Challenge	Frequency	Percentage
Lack of Digital Literacy	20	29%
Network Issues	18	26%
Security Concerns	16	23%
Transaction Failures	10	14%
No Major Issues	6	8%
<b>Total</b>	<b>70</b>	<b>100%</b>



**Figure 4: Visual Representation of Challenges in Adoption of Digital Payment Systems**

Table 4 gives the distribution of the respondents in terms of the difficulties encountered in the adoption of the digital payment systems which include lack of digital literacy, network issues, security concerns, transaction failure and no major issues, against the frequency and percentage. These challenges and their proportionality are expressed in Figure 4. The findings indicate that the biggest challenge was lack of digital literacy (29%), then network issues (26%), and security issues (23%), and finally 14% was transaction failures. Only 8 percent of the respondents stated they had no significant problems. This shows that technical and knowledge-based barriers are the main factors that contribute to the effective implementation of digital payment systems amongst owners of small businesses.

## 5. CONCLUSION

The researchers concluded that digital payment systems have been important in improving financial inclusion and development of small businesses in India. The results showed that the level of awareness and positive responses with respect to the benefits of digital payments were high among respondents in relation to enhancing access to financial services, enhancing the efficiency of transactions, and fostering business growth. The adoption of digital payment was also reported to lead to improved financial management, convenience to the customers and general business performance. Nonetheless, their potential is still being hampered by such challenges as the lack of digital literacy, network problems, and security concerns. Hence, to maximize the benefits of digital payments and attain inclusive and sustainable economic growth, it is vital to strengthen digital infrastructure, enhance financial and digital literacy, and have secure systems of transactions.

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