

Adoption of Digital Payments in MSMEs: A Study of Usage, Challenges, and Growth Potential

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Chapter I

INTRODUCTION

The digital revolution in India, especially since 2016, has triggered a transformative shift towards digital payment systems, profoundly impacting the nation's economic landscape—particularly the Micro, Small, and Medium Enterprises (MSMEs) sector, which comprises over 63 million businesses and contributes around 30% to India's GDP, 45% to manufacturing, and over 40% to exports. As digital tools like UPI, BHIM, PoS terminals, mobile wallets, and QR codes become essential for scalability, efficiency, and customer engagement, a significant digital divide persists among MSMEs due to factors like geographic disparities, enterprise size, digital literacy, and access to infrastructure. While digital transactions have surged—evident in UPI's 13,440 crore transactions in FY 2024—adoption across MSMEs remains uneven. This study aims to go beyond usage statistics, exploring the socio-technical and economic barriers to digital payment adoption and assessing the potential benefits of broader integration. By examining these dynamics, the research seeks to inform targeted strategies and inclusive policies that support MSMEs in embracing digital transformation, thereby strengthening India's digital economy.

Objective of the Study

This study aims to conduct a comprehensive investigation into the adoption of digital payments within India's MSME sector by examining the current usage patterns, identifying key challenges, evaluating benefits, assessing the role of supportive ecosystems, and proposing actionable strategies. It explores the extent of digital payment integration across various MSMEs, the barriers—both technical and behavioral—that hinder adoption, the transformative benefits of digitalization such as faster transactions and market expansion, the influence of government policies and digital infrastructure, and concludes with targeted recommendations to enhance digital uptake and foster inclusive economic growth.

Key Objectives:

1. Examine Current Adoption – Assess how widely and in what ways MSMEs use digital payments like UPI, PoS, QR codes, etc.
2. Identify Challenges – Understand barriers such as poor connectivity, digital illiteracy, security concerns, and cost-related issues.

3. Evaluate Benefits – Highlight advantages like improved cash flow, transparency, market access, and customer satisfaction.
4. Assess Enabling Ecosystem – Analyze the impact of government policies, digital infrastructure, and financial institutions.
5. Recommend Strategies – Develop practical policy and industry recommendations to boost adoption and support MSME digital transformation.

Hypotheses of the Study:

1. H1: Digital payment adoption has a significant positive impact on the growth and operational efficiency of MSMEs.
2. H2: The effectiveness of digital payment platforms varies significantly across different types of MSMEs based on their size, sector, and geographic location.
3. H3: The use of digital payments significantly improves customer satisfaction, engagement, and brand trust among MSMEs.
4. H4: MSMEs face significant barriers—such as inadequate digital infrastructure, limited digital literacy, and cybersecurity concerns—that hinder the effective adoption of digital payment systems.
5. H5: There is a positive relationship between the adoption of digital payment systems and the sales or revenue growth of MSMEs.

Scope of study

In this research, we have mainly focused on the findings of how social media marketing affects the performance of SMEs, especially those type of entrepreneur who are very much active on social media platforms

Chapter II

Literature Review:

□ Infrastructure and Digital Literacy (Kumar & Singh, 2018):

MSMEs, especially in rural areas, face challenges like poor internet connectivity, lack of POS terminals, and limited digital literacy, which hinder digital payment adoption.

□ Cybersecurity and Trust Issues (Verma & Patel, 2019):

Fear of fraud, data breaches, and lack of awareness about secure practices lead to low trust in digital payment systems among MSMEs.

□ Role of Government Policies (Raj & Mehta, 2020):

Financial incentives such as tax benefits, subsidies, and simplified compliance processes help reduce the perceived cost and risk of adopting digital payments.

□ Benefits of Digital Payments (Sharma & Kaur, 2021):

Digital transactions improve operational efficiency, transparency, customer satisfaction, and access to credit, contributing to faster revenue growth for MSMEs.

❑ **Socio-Cultural and Psychological Barriers (Das & Mukherjee, 2022):**

Resistance to change, habit-based reliance on cash, and distrust of digital systems due to psychological and cultural factors slow down digital adoption, requiring awareness campaigns and trust-building efforts.

Research Gap

Despite the growing use of social media marketing, existing research predominantly focuses on large companies or general strategies, leaving significant gaps in understanding its application among SMEs. Limited studies explore how SMEs in specific industries—such as fashion, food and beverage, retail, tourism, and technology—navigate unique challenges on social platforms. Moreover, most research is based in developed countries, with little attention given to SMEs in developing regions like India and Southeast Asia, where cultural and economic factors may influence marketing outcomes. There is also a lack of focused research on the effectiveness of emerging platforms like TikTok and WhatsApp, and the unique experiences of startups, home-based businesses, and women-led enterprises are often overlooked. This highlights the need for more nuanced and up-to-date studies on how diverse SMEs use social media across different contexts.

CHAPTER III

Data Analysis and Interpretation

❑ **Most Used Digital Payment Methods:**

UPI (e.g., Google Pay, PhonePe, Paytm) is the most widely used digital payment method, accounting for 58.8% of usage. Debit/Credit cards and Net Banking follow, each at 11.8%, while other methods like mobile wallets and QR codes are used less frequently.

❑ **Payment Frequency:**

A majority of MSMEs use digital payments daily (47.1%), followed by monthly (23.5%) and weekly (17.6%), showing that digital payments are an integral part of everyday transactions.

❑ **Reasons for Adopting Digital Payments:**

The top reasons for adoption are customer demand and improved record-keeping/transparency (each at 23.5%), followed by reduced cash handling and government incentives. Convenience and competitor pressure also played smaller roles.

❑ **Impact on Financial Transactions:**

Most respondents said digital payments improved their daily financial transactions—35.3% said "significantly improved", another 35.3% said "slightly improved", while 17.6% saw moderate improvement. Very few experienced no improvement or found it less convenient.

☐ **Main Challenges Faced:**

The biggest issues were technical glitches or failed transactions (41.2%) and concerns about online fraud and cybersecurity (35.3%). Other minor challenges included lack of awareness and general hesitation.

☐ **Customer Support Satisfaction:**

Half the respondents (50%) rated customer support for digital payment platforms as “Good”, 31.3% rated it “Average”, and 18.8% rated it “Excellent”. No one rated support as poor or very poor.

☐ **Awareness of Government Initiatives:**

Most respondents are at least somewhat aware of government efforts—64.7% are partially aware and 35.3% are fully aware. None of the respondents reported being completely unaware.

CHAPTER IV

DISCUSSION

The discussion highlights that Digital Payments offers MSMEs a cost-effective way to promote their businesses, build brand visibility, and engage directly with customers. Platforms like Facebook and Instagram help MSMEs share updates, attract buyers, and foster customer loyalty through two-way communication. Studies show that active use of social media boosts sales and influences purchasing decisions, particularly in developing countries. It has also democratized marketing, allowing small businesses to compete with larger firms through creativity rather than budget. However, many MSMEs still underutilize social media analytics, missing out on data-driven insights that could improve targeting and campaign effectiveness.

☐ **Limited Geographic Scope**

- Studies based in specific cities or regions may not reflect the varied conditions across urban and rural MSMEs, reducing generalizability.

☐ **Sample Size Constraints**

- Small or non-random samples may not represent the full diversity of MSMEs, affecting the reliability of results.

☐ **Self-Reported Data Bias**

- Responses from surveys or interviews may be exaggerated or inaccurate, leading to skewed findings.

☐ **Rapid Technological Changes**

- The fast-paced evolution of digital payment tools may render research findings outdated quickly.

☐ **Sectoral Coverage Limitation**

- Studies focused on a few industries may ignore the differing needs and challenges across sectors like retail, agriculture, or manufacturing.
- ☐ Lack of Longitudinal Data
- One-time studies do not track changes over time, missing long-term trends or impacts of digital payment adoption.
- ☐ Exclusion of Informal Enterprises
- Many unregistered micro-businesses are left out of formal research, limiting insight into a major portion of the MSME ecosystem.
- ☐ Limited Consideration of Regulatory Influence
- Ignoring government policies and incentives overlooks key factors that can significantly impact digital adoption.
- ☐ Technology and Infrastructure Gaps
- MSMEs in remote areas often lack internet, digital devices, or literacy, which hinders adoption and is sometimes under-assessed in studies.

Future Research Directions

1. **Longitudinal Studies:**
Track MSMEs over time to measure the sustained impact of digital payments on profitability, customer growth, and operational efficiency, providing stronger evidence of ROI.
 2. **Sector-Specific Research:**
Investigate digital payment adoption challenges and opportunities in distinct sectors (e.g., agriculture vs. textiles) to develop tailored solutions and policies.
 3. **Policy Impact Evaluation:**
Assess the effectiveness of government initiatives like ONDC and Udyam Assist Portal in integrating MSMEs into the digital economy, identifying improvements for better outcomes.
- These research paths will deepen understanding of digital transformation in MSMEs and guide more effective strategies and policies for inclusive economic growth.

Conclusion

Social media marketing is crucial for MSMEs to expand and compete affordably in today's digital environment. Platforms like Facebook, Instagram, and LinkedIn enable MSMEs worldwide, including India, to increase brand awareness, engage customers, and boost sales. While benefits are clear, challenges such as limited internet access, digital skills gaps, and measuring effectiveness remain. Addressing these through training, strategic planning, and appropriate tools can help MSMEs harness social media for sustainable growth and stronger market presence. Ultimately, social media empowers MSMEs to build loyal customer relationships and compete successfully in the digital age.

CHAPTER V

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CHAPTER V

Appendix

1. Digital Payment Methods Used by MSMEs:
 - UPI apps (e.g., Google Pay, PhonePe, Paytm, BHIM)
 - Debit/Credit Cards (online or in-store)
 - Net Banking
 - Mobile Wallets (e.g., Paytm, Amazon Pay, Mobikwik)
 - QR Code payments
 - Bank Transfers (IMPS/NEFT/RTGS for personal use)
 - None
 - Other
2. Frequency of Digital Payments:
 - Multiple times a day
 - Daily
 - Weekly
 - Monthly
 - Rarely/Never
3. Primary Reasons for Adopting Digital Payments:
 - Customer demand
 - Government initiatives/incentives
 - Increased efficiency/convenience
 - Improved record-keeping/transparency
 - Reduced handling of cash
 - Competitor adoption

- Other
- 4. Extent of Improvement in Daily Financial Transactions:
 - Significantly improved
 - Moderately improved
 - Slightly improved
 - No change
 - Made it less convenient
- 5. Biggest Challenges or Concerns with Digital Payments:
 - Concerns about online fraud/cybersecurity
 - Fear of technical glitches/failed transactions
 - Lack of awareness about all features
 - Privacy concerns
 - Unreliable internet/network connectivity
 - Difficulty in resolving disputes/issues
 - Merchant unwillingness to accept digital payments
 - No significant challenges
 - Other
- 6. Rating of Customer Support for Digital Payment Apps/Platforms:
 - Excellent
 - Good
 - Average
 - Poor
 - Very Poor
- 7. Awareness of Government Initiatives or Guidelines on Digital Payments:
 - Yes, fully aware
 - Partially aware
 - Not aware