

The Socio-Economic Effects of UPI (Cashless Transactions) on Small Businesses, Shopkeepers and Peddlers in India

Mrs. Priti Singh

Assistant Professor

Dept. of Commerce

D.D.U. Govt. P.G. College, Sitapur, U.P.,

Email:pritianurag2008@gmail.com

Abstract:

India is a land of diverse economies. From its towering skyscrapers that house multinational corporations to the chaotic but charming streets filled with small businesses, shopkeepers, and peddlers, every part contributes to the vibrant fabric of the nation's economy. The clinking of coins and rustling of notes has been the defining soundscape of Indian bazaars for decades. Yet, over the last few years, this melody has been disrupted by a distinct ding! — The sound of a digital payment notification.

The rise of Unified Payments Interface (UPI) has redefined India's economic landscape, particularly for its backbone—small businesses, shopkeepers, and peddlers. This study explores how digital payments have transformed these enterprises by enhancing operational efficiency, increasing inclusivity, and fostering resilience, especially during the COVID-19 pandemic. However, the transition to digital payments also brings challenges such as dependency on technology, cybersecurity risks, and the digital divide. By blending data-driven insights with real-life stories, this article provides an engaging narrative of UPI's profound impact on small businesses. From the bustling lanes of India's urban markets to its rural corners, the integration of UPI reflects not just technological progress but a cultural shift toward a more inclusive and efficient economy.

Keywords:

UPI, Small Businesses, Technology, Cyber Security

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Mrs. Priti Singh

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Introduction

The aroma of fresh samosas wafting through a busy market lane, the rhythmic sound of a cobbler hammering nails into a shoe sole, pani puri stalls surrounded by the customers or the cheerful cries of a vegetable seller advertising their wares, — these scenes form the heartbeat of India’s micro-economy. For decades, these small businesses, shopkeepers, and peddlers operated in an ecosystem dominated by cash transactions. The jingling of coins and rustling of notes were not merely transactions; they were traditions, deeply embedded in the fabric of everyday commerce.

However, the advent of the Unified Payments Interface (UPI) in 2016 marked the beginning of a quiet revolution. In a country where digital literacy was limited and cash was king, UPI’s promise of seamless, real-time transactions initially seemed like an urban phenomenon. Yet, it swiftly transcended barriers of geography, income and education. Today, QR codes are as ubiquitous as the stalls themselves, and a single *ding!* of a smartphone confirming payment has replaced the clinking of coins. This article embarks on a journey to understand how UPI has transformed small businesses and itinerant selling/ hawking in India. It examines the economic, social and cultural implications of this digital transition, celebrating its triumphs while critically analyzing its challenges. Through this lens, we explore not just the mechanics of UPI but the resilience and adaptability of India’s entrepreneurial spirit.

Literature Review

Now online, ‘UPI usage surges in India on the back of small businesses’, **July 2024**, The Times of India reported that the adoption of digital technology for business activities in India, particularly the use of UPI (Unified Payments Interface) for placing orders, has seen a substantial rise. According to a recent survey by the statistics office the usage of the internet for business purposes, whether making UPI payments or placing online orders, has increased to 13.5 per cent from 7.7 per cent in rural areas and to 30.2 per cent from 21.6 per cent in urban areas during 2022-23. This marks an overall increase of 7.2 percentage points, highlighting the rapid embrace of digital payment methods in the informal sector.

Roopa, Vijayalakshmi, Nishitha, 2025. Scholars examined UPI as a transformative solution for retailers in India, especially in Rayalaseema, Andhra Pradesh. Robust methodology and analysis demonstrated that UPI offers high operational efficiency, convenience, safety, and service quality. To fully harness UPI’s benefits, targeted awareness campaigns, training, incentives and partnerships with financial institutions are crucial. Implementing these recommendations and supportive policies can drive widespread UPI adoption, enhancing the efficiency

and security of the payment ecosystem for retailers and consumers. The study highlights UPI's transformative impact on the retail sector, positioning it as a leading payment method due to seamless app integration and broad institutional support. As consumer preferences shift towards digital payments, UPI's ongoing innovation could revolutionize retail transactions, shaping the future of payment methods.

Timesofindia.com, Mar28, 2024, reported in its article titled “ The UPI effect: transforming Indian economy and job market” that in the webinar titled “Times Accent- Driving Job creation Through Digital Payments” organized by TOI the industry experts provided valuable insights on how the UPI has replaced the usage of debit cards especially in e-commerce sector. The integration of credit cards with UPI has fascinated and attracted the customers. They noted that UPI has been instrumental in driving the digital payment revolution, leading to increased efficiency and acceptance across consumer and business sectors, thereby boosting cash flows for businesses and fostering expansion. Moreover, the proliferation of fintech firms in the payment sector has directly employed around 80,000 individuals and indirectly contributed to over 200,000 jobs.

Dr. Anjum, A., 2025. UPI's QR-code-based system has empowered micro and small enterprises (MSMEs) by providing cost-effective payment solutions. Reports highlight that 80% of small businesses experienced revenue growth due to digital payments (AB Academies, 2023). Research shows that digital payment platforms have facilitated the growth of new business models, particularly in rural and semi-urban areas, where access to traditional banking services is limited. UPI's growth in rural areas, supported by the Jan Dhan-Aadhaar-Mobile (JAM) trinity, has bolstered financial inclusion. Over 200 million rural accounts were activated for digital payments, reducing regional economic disparities (PIB, 2023). The availability of localized language options and user-friendly interfaces has further encouraged adoption in underserved regions. Studies estimate that digital payments added 1.5% to India's GDP between 2017 and 2023 (IJRPR, 2023). Additionally, the platform has enabled faster and more efficient subsidy disbursements, reducing leakage and improving the effectiveness of government welfare programs. This efficiency has, in turn, enhanced household incomes and supported economic resilience during crises such as the COVID-19 pandemic.

Research Objectives

This paper aims to:

- Explore how UPI is changing the small businesses and hawking in India.

- Reasons for the increase in the acceptability of UPI by small businesses.
- Identify the challenges and risks involved in UPI payments.

Research Methodology

- *Types of Research:* Explanatory
- *Collection of Data:* Secondary(from websites, research papers, newspapers etc)

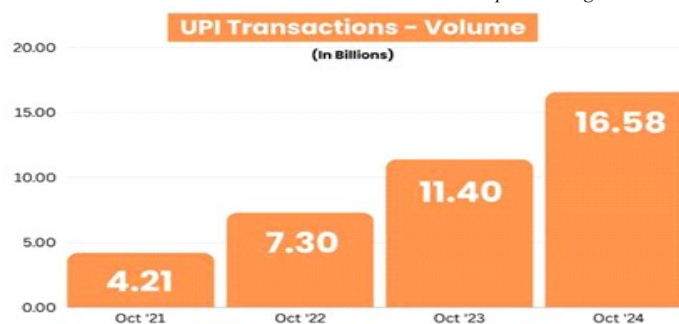
Findings and Discussions

From Cash to QR Codes: A Paradigm Shift

For decades, small businesses across India relied on cash transactions. The reasons were simple: cash was immediate, tangible, and required no formal banking system. However, this dependency on cash also came with limitations. Handling cash involves risks of theft, counterfeit currency, and operational inefficiencies. Moreover, it excluded small businesses from the larger, more organized financial ecosystem.

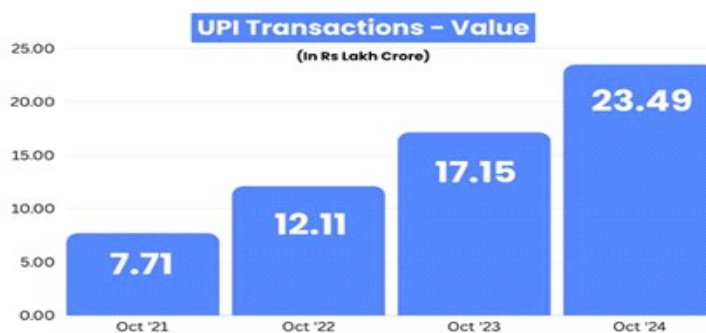
UPI has changed this narrative entirely. By enabling real-time digital payments through smartphones, UPI has empowered small entrepreneurs to embrace technology without requiring significant infrastructure or investment. With a QR code and a bank account, even the smallest roadside vendor can now cater to customers who prefer digital payments.

This transition has not only made transactions more seamless but has also boosted the professional image of small businesses. Customers now associate QR codes at stalls with convenience and trust, enhancing their overall shopping experience. The UPI apps are also constantly making innovations in their apps which have contributed to their increased utility to the businesses leading to an increase in their acceptability and credibility such as the use of voice boxes by payment apps. These devices make announcements of the amount received every time by the scanning of QR codes, allowing the sellers to know whether and how much has been paid by the customers relieving them from the need to check their smartphones after every transaction. This adds to their productivity by saving their time spent on receiving cash payments or checking balances on phones. Now with the integration of RuPay credit cards with UPI, the users can avail the benefits of a credit card as well. They can now make payments through credit lines and savings accounts both. All this has contributed to the massive increase in the no. of UPI transactions as reported by the National Payment Corporation of India. NPCI reported that UPI processed over 16 billion transactions worth rupees 23.49 Lakh crores in October 2024.



Source: National Payments Corporation of India (NPCI)

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Breaking Down Barriers to Financial Inclusion

One of UPI's most significant contributions is its role in promoting financial inclusion. Traditional banking services often seemed out of reach for small businesses and peddlers due to complex documentation processes and the requirement of collateral for loans. UPI, however, democratizes access to digital transactions, requiring only a smartphone, an internet connection, and a basic bank account.

For small shopkeepers in urban and semi-urban areas, this has opened up new opportunities. They no longer lose customers who don't carry exact change, and they can now track their income digitally, which simplifies financial management. Even in rural areas, where banking penetration has historically been low, UPI is making steady inroads.

The ripple effects of this financial inclusion are profound. For instance, by creating a digital transaction history, UPI enables small entrepreneurs to build their creditworthiness. This can pave the way for access to microloans and other financial services that were previously out of reach.

Economic Empowerment through UPI

The ability to accept digital payments has had a transformative impact on the economic landscape for small businesses. It has allowed them to cater to a broader customer base, including tech-savvy younger generations and urban professionals who prefer cashless transactions. This shift has led to increased sales and improved customer retention.

Consider the case of small food vendors, who often deal with high foot traffic but low-value transactions. Before UPI, these vendors frequently faced challenges due to the unavailability of small denominations or the need to provide change. Now, customers can make payments of any amount, no matter how small, with just a scan of a QR code.

This newfound convenience has also translated into operational efficiencies. Businesses can now focus more on their core activities, such as maintaining product quality and customer service, rather than worrying about managing cash or handling change.

Challenges and Risks: The Flip Side of the Coin: Dependency on Infrastructure

While UPI's benefits are undeniable, its dependency on digital infrastructure poses significant challenges. Small vendors in rural or semi-urban areas, where internet connectivity is unreliable, often struggle to leverage their full potential. Network outages or slow connections can disrupt transactions, leading to customer dissatisfaction and loss of revenue.

Moreover, the need for smartphones and basic digital literacy creates barriers for certain segments. Many older shopkeepers and peddlers, accustomed to cash-based systems, find the transition to digital payments daunting. The absence of robust educational programs further exacerbates this issue.

Another challenge is the lack of financial literacy among small entrepreneurs. Many vendors, especially those in older age groups or with limited education, struggle to understand the intricacies of digital payments. This makes them vulnerable to scams, such as phishing attacks or fraudulent QR codes.

Cybersecurity Risks

With convenience comes vulnerability. Cybersecurity threats, including phishing scams and fraudulent transactions, have emerged as significant concerns for UPI users. Small businesses, often unaware of safe digital practices, are particularly at risk. The absence of a clear grievance redressal mechanism in some cases leaves victims without recourse, tarnishing trust in the system.

One such case involved a vegetable seller losing her savings to a scammer who tricked her into revealing her UPI PIN. Incidents like these underscore the

need for widespread digital literacy campaigns and stricter enforcement of cybersecurity measures.

Lastly, there is the looming question of transaction costs. Currently, UPI transactions are free for most users, but any introduction of fees could deter small businesses from using the platform. Policymakers must tread carefully to ensure that UPI remains affordable and accessible for all.

Inclusivity across Demographics

One of the most remarkable aspects of UPI is its inclusivity. By simplifying digital payments, it has transcended barriers of geography, class, and gender. Small businesses in rural areas, which were once excluded from the formal financial system, are now part of the digital economy.

Women entrepreneurs, in particular, have benefited immensely. Many women running home-based businesses or small stalls prefer digital payment as it offers a layer of anonymity and security. UPI allows them to conduct transactions without sharing personal details, making it a safer option compared to cash.

The system has also brought inclusivity to customers. With UPI, anyone with a smartphone can make payments, regardless of their financial status. This has led to an increased customer base for small businesses, as they can now cater to individuals who prefer cashless transactions.

The Role of COVID-19 in Accelerating Adoption

The COVID-19 pandemic was a turning point for digital payments in India. Social distancing norms and concerns about handling cash as a potential carrier of the virus prompted a rapid shift toward contactless transactions. For small businesses, this was a survival strategy during an unprecedented crisis.

UPI emerged as a lifeline during the pandemic, enabling businesses to continue operations despite the restrictions. Home-based entrepreneurs started accepting UPI payments for doorstep deliveries, while street vendors adapted to the new normal by displaying QR codes prominently.

This period highlighted the resilience and adaptability of small businesses. Despite the challenges posed by the pandemic, they quickly adopted digital tools to ensure their survival, showcasing the potential of UPI as a driver of economic recovery.

Cultural Shifts in Commerce

The adoption of UPI has not just been a technological transition; it has also brought about a cultural shift in the way small businesses operate. The traditional cash-based economy, often seen as informal and disorganized, is gradually giving way to a more structured and professional system.

This shift is evident in the way businesses now present themselves. QR codes displayed at stalls and shops are symbols of modernization and professionalism. Customers view these businesses as more trustworthy and reliable, leading to stronger customer relationships.

The cultural impact extends beyond individual transactions. UPI has also encouraged collaboration among small entrepreneurs. For instance, groups of vendors often share insights and tips on using digital payments effectively, creating a sense of community and mutual support.

Opportunities for Growth and Innovation

The future of UPI holds immense potential for small businesses. Innovations such as voice-enabled payments and offline UPI are being developed to address current limitations, such as low literacy levels and poor connectivity. These advancements could further expand the reach of digital payments, especially in rural areas.

There is also scope for integrating additional features into UPI platforms, such as credit access, savings options, and loyalty programs. These features could empower small businesses to grow and compete with larger players on a more level playing field.

Furthermore, financial institutions and policymakers can play a crucial role in promoting UPI adoption by conducting awareness campaigns and offering training programs for small entrepreneurs. By equipping them with the knowledge and skills needed to navigate the digital economy, these initiatives can ensure that the benefits of UPI are accessible to all.

The Road Ahead

As UPI continues to evolve, its success will depend on addressing the challenges that hinder its adoption. Policymakers, financial institutions, and technology providers must collaborate to ensure that the platform remains secure, inclusive, and affordable.

Efforts to bridge the digital divide through infrastructure development, education, and innovative solutions will be crucial. Additionally, maintaining UPI's affordability, particularly for small businesses, will be essential for sustaining its widespread adoption.

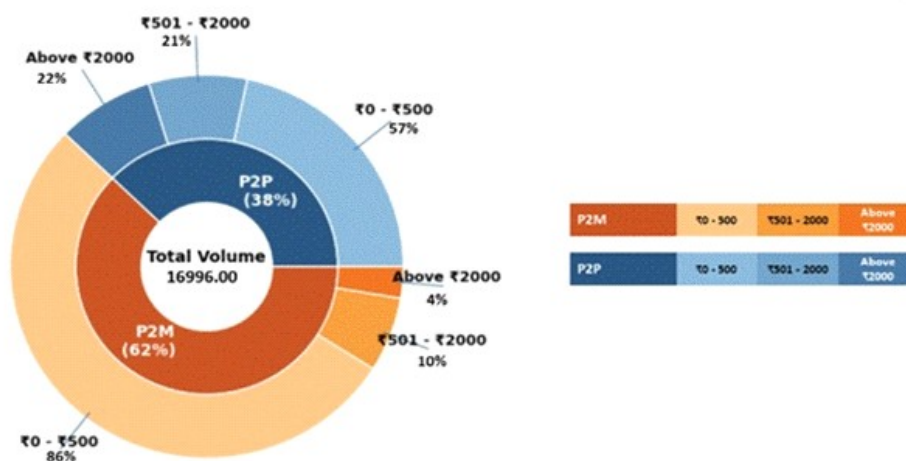
UPI: a new payment system for small businesses

UPI is gaining popularity among the common masses. Nowadays Google Pay, PayTM, Phonepay, and Mobikwik have become household names. People, whether small businesses or the customers- large or small are not wary of using these digital payment platforms for making and receiving payments. The number of

P2P (peer-to-peer) and P2M(person-to-merchant) transactions using the digital payments has seen a huge surge. Whether it is sending or receiving money from friends or family or making small purchases, UPI is proving to be people’s first choice. As per the report given by NPCI, in the financial year 2023-24 UPI contributed to 80% of the India’s total retail payments, wherein the total number of transactions exceeded 131 billion and the value exceeded rupees 200 lakh crores.

In the above-mentioned huge figures, the small payments received and trade done by the small businesses have a major contribution. In another report NPCI stated that in the financial year 2024-25(till Jan 2025) out of the total P2M transactions made through UPI 86% of these transactions were up to a value of INR500. This proves how UPI has now become the very own payment system of the small businesses, shopkeepers and peddlers and their customers..

UPI: Transactions (by Volume in Mn) for Jan'25



Source: National Payment Corporation of India

Transcending the boundaries

The success story of the Indian digital payment system has reached across the boundaries as a result the accessibility and acceptance of the UPI and RuPay cards are gaining momentum in the foreign countries like Bhutan, UAE, Nepal, Mauritius, France and Sri Lanka. This has helped the Indian businesses and consumers to receive and make cashless transactions while being abroad seamlessly. This is also facilitating remittance flow, easy trade and financial inclusion and providing an opportunity to our MSMEs to trade seamlessly with these countries.

As per the ACI worldwide report 2024, in 2023 India accounted for 49% of the world’s real-time payment transactions.

Conclusion: A Transformative Journey

The story of UPI in India is a testament to the power of innovation and resilience. For small businesses, shopkeepers, and peddlers, the shift to digital payments represents a transformative journey filled with both challenges and opportunities.

While the path is not without obstacles, the benefits of UPI far outweigh its drawbacks. It has not only modernized the way transactions are conducted but has also empowered millions of small entrepreneurs to dream bigger and operate smarter. As UPI continues to evolve, its impact on small businesses will remain one of the most compelling narratives of India's digital revolution. It is not just a story of technology but a story of empowerment, inclusivity, and hope — a reminder that progress is not just about adopting new tools but about creating opportunities for everyone to thrive.

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