

Original Article

# Digital Payments and MSMEs: Assessing Potential and Impact

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**Abstract:** India's Micro, Small and Medium Enterprises (MSMEs) are crucial in economic and social development. The Government of India is also coming up with new schemes and benefits for the MSMEs from time to time and is also very proactive to ensure that all the benefits of these MSMEs schemes reach the MSMEs sector in time. Digitization has really impacted the complete Indian Economic ecosystem in a big way, and MSMEs, being an integral part of the Indian Economy, have also been reaped the benefits of this revolution. As a partner of the Government initiatives, the Ministry of MSMEs has also taken steps to digitize the entire MSMEs ecosystem. A committee was set up on digital payments under the chairmanship of the Secretary (MSME) for making the Ministry of MSMEs and its attached offices to oversee the successful implementation of the Digidhan Mission, a Government of India's project to inculcate the habits of digital payment among citizens. Trends through Digital payments in India have steadily and significantly increased as a result of coordinated efforts of the government as a whole, along with all stakeholders concerned, from 2017 crore transactions in FY 2017-18 to 8840 crore transactions in FY 2021-2022. In the MSME sector, digital transactions have also increased manifold over the last few years.

**Keywords:** MSMEs, Digital Payments, Financial transactions, UPI.

## I. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the economic and social development of any country. They act as the harbinger of the plethora of job opportunities and fuel economic progress by the much-needed creativity and innovation that come along with it. Their contribution to the development of the Indian economy, accounting for around 30% of GDP, employs over 11 crores of India's population, and their (MSMEs) total number is approx. 6.33crores (Ministry of MSME, Annual Report 21–22). After agriculture, MSEs emerged as the 2nd largest employment-providing sector (Manisha Kakkar et al. 2021). MSMEs act as subsidiary units of large corporations, and inclusive industrial development is not plausible without their presence. The MSMEs are currently widening their market by producing various products and services to meet the demands of domestic and global markets. The MSMEs in India are providing employment opportunities in both rural and backward areas through industrialization, which has curtailed region-wise unbalancing. They also ensure that the national income and wealth distribution among the populace, on the whole, is more fair and equal.

Through the regular introduction of new schemes and benefits for the MSMEs, the Government of India has provided an impetus to the growth of this sector. It has also ensured through various mechanisms that these benefits are penetrated enough to reach MSMEs in a timely manner. Further, the union budget 2022-2023 focuses on ease of business for MSMEs. The adoption of digitization has been the top-scoring parameter for ease of doing business for manufacturing MSMEs, followed by availability of information on business procedures and compliances, sufficient power supply accessibility, the process of tax registration and tax compliances and availability of infrastructure (internet, telecom and other utilities) (Pradeep Multani, President, PHD Chamber of Commerce and Industry). India ranked 63rd in 2022 in ease of doing business across the world among 190 countries, improving its rank from 142 in 2014 (World Bank). 2018, the government pledged to take the country to the top 50 in EoDB rankings. In May 2020, the union cabinet approved the Emergency Credit Line Guarantee Scheme (ECLGS) and delivered additional credit of Rs. 3 lakhs crores to MSMEs and MUDRA borrowers. As the country was in the grip of the COVID-19 pandemic, major losses were faced by the MSMEs in the manufacturing and other sectors. The Government of India introduced the Emergency Credit Line Guarantee Scheme to prevail over these losses. An additional Rs.2 lakh crore credits were for the Micro and Small Enterprises sector to be facilitated under the Credit Guarantee Trust for Micro and Small Enterprises (CGTMSE). The approval of the Raising and Accelerating MSME Performance (RAMP) scheme by the Union Cabinet, which commenced in FY 2022-23, is expected to benefit MSMEs in many ways. This World Bank-assisted scheme intends to make MSMEs more competitive by increasing their access to market and credit and reducing payment delays, thus improving the overall business environment. Also, the focus of RAMP on environmental sustainability makes the Greening of MSMEs a possibility shortly with the adoption of innovative Green practices and technologies.



## II. REVIEW OF LITERATURE

In his article, Chanderjit Banerjee (2020) stated that Covid-19 affected the small business or MSMEs worldwide and forced them to handle challenges like insufficient cash flows and disrupted supply chains. The author suggested that leveraging technology is the only sustainable solution for MSMEs as it improves all aspects of their business, including engagement with stakeholders, customer relations, operations, financial management, supply chain management, production innovation, skill engagement, etc. Although digital adoption is very important for MSMEs, the adoption is a challenge, too. So, to make the MSMEs digitally literate to improve financial skills and financial inclusion, a programme named Digital Saksham has been launched by CII and supported by MasterCard and the government's National Institute for MSMEs for three lakhs of small businesses. The author ensures that this upcoming digital infrastructure will have positive ripple effects on nations' GDP and create more jobs.

Sharon Bateau (2021). His study stated that a digital ecosystem for MSMEs can transform the MSME segment. The various factors like changes in the attitude and beliefs of entrepreneurs, adoption of cashless transactions, easing regulatory norms for enabling cross-functional service, successful integration with government platforms, increasing digital credit through the active role of fintech catering, etc. which through a policy intervention by government and innovative practices by private players can facilitate digital transformation among MSMEs.

Cueto, L. J.et.al. (2022). Their research stated that the MSME sector was greatly affected by the COVID-19 pandemic restrictions compared to the other larger firms as they usually lacked sufficient resources regarding finance availability, management, and technology and were unprepared for such disruptions that took longer and graver than expected. But despite the minimal government support for this sector, young entrepreneurs found ways to survive in the business through digital innovations and the increasing online demands for goods and services during the lockdowns. On the other hand, young entrepreneurs also faced challenges regarding skills required for online business, market-related problems in digital platforms, mobility restrictions and availability of quality internet infrastructures.

Mehralian.et.al (2022). Study the impact of digital marketing on the business performance of MSMEs during the COVID-19 pandemic, taking into account the mediating role of CRM. The results suggested that Digital Marketing has had a significant positive impact on Business Performance during the COVID-19 pandemic. With digital marketing, some businesses can even use such a crisis as an opportunity to promote their products/services. Also, digital marketing can stimulate customer relationships by enabling a business to take or track customer feedback and reviews and personalize its marketing strategies accordingly.

Mahesh K.M.et al. (2023) studied the different Government schemes and policies accelerating the growth and opportunities for MSMEs for inclusive economic growth and sustainability. The study stated that the digital revolution is prominent in small and medium enterprises facing financial challenges. Further, the researcher analyses the growth of small and medium enterprises through various schemes such as ECLGS, startup India SAMRIDH, and Startup India Seed Fund. It also focused on the importance of various portals like ONDC, OCEAN, and NDEAR to enhance the productivity and smooth functioning of E-Commerce, resulting in job opportunities which lead to the upliftment of the country's economy.

## III. RESEARCH GAP

Digitization has really impacted the complete Indian Economic ecosystem in a big way, and MSMEs, being an integral part of the Indian Economy, have also reaped the benefits of this revolution. However, thorough research focusing on the ever-growing awareness of digital technologies, their acceptability among MSMEs and their subsequent use by the MSMEs leading to these carrying out financial transactions which have taken the MSME sector by storm is somehow still limited. The benefit of using Digital transactions has resulted in these small enterprises' business growth. Also, a few studies have been conducted to outlay in detail the government's push through its comprehensive schemes to promote digitization. At best, in the context of Indian MSMEs, only a few studies have been conducted by some researchers limited to certain specific industries. This study aims to bridge that gap and provide insights to measure the scale of Digitalization in the MSME Sector and the way ahead.

## IV. OBJECTIVES OF STUDY

1. To assess the impact of the growth of Digital Payments in the realm of MSME in India.
2. To study the various schemes of the government for creating awareness and push for digital payments in society with respect to MSMEs sectors.

## V. DIGITAL PAYMENT- CREATING IMPACT

The Government of India came into action mode to promote digital payment when, as part of its union budget of 2017-2018, it announced that a mission would be set up to achieve a target of 2,500 crore digital transactions during the same financial year through UPI, USSD, BHIM Aadhar payment, IMPS and Debit card.

The result over a period of time has been overwhelming. By 2021, Over 40 percent of the world's real-time payment transactions will occur through UPI (Shri Narendra Modi Hon'ble Prime Minister of India G20 Summit, Bali). The Ministry of MSMEs has also initiated a lot of steps to digitize the entire MSMEs ecosystem. Following the guidelines of MeitY, a committee was set up on digital payments under the chairmanship of the Secretary (MSME) to ensure the Ministry of MSMEs and the offices attached to it that they are overseeing the successful implementation of the Digidhan Mission. The work done by the Ministry of MSME got due recognition in 2018 when the ministry was awarded the platinum award for enabling and implementing digital platforms for all the sectors of MSME during the Digital India Award of the Ministry of Electronics & Information Technology. Also, in 2019 and 2020, the Digital India Award, the Ministry of MSMEs got the Platinum Icon Award (1st Prize) and Open Data Award (2020), respectively, for enabling digital platforms for all the sectors of MSMEs.

#### A) Digidhan Mission: Achieving Significant Milestones

The Government of India, through its constant initiatives and focus, is making every effort to bring all the sectors of our country under the formal fold of digital payment services. The Digital India Programme dreamt of transforming India into a digitally empowered society and knowledge economy by making digital governance and services available to every citizen. The setting up of the DIGIDHAN Mission in June 2017 was done with a single agenda to inculcate the habits of digital payment among citizens with the objectives of promoting digital payments through all the digital modes, development of efficient digital infrastructure for seamless digital transactions, awareness creation through promotional campaign, training, education and collaboration with specialists, ensuring security of digital payments ecosystem. The DIGIDHAN Mission has been the principal promoter of the digital payment ecosystem in India.

#### B) The Ever-Growing Potential of Digital Transactions

Digital payment transactions have seen a steady but significant increase due to all the streamlined efforts of the Government of India and the stakeholders involved. The transactions, which stood at 2071 Crore in FY 2017-18, almost grew 4.5 times to 8840 Crore in FY 2021-22, as shown in fig-1. By December 2022, the volume of transactions increased to 9192 crores, and the value increased to Rs.2050 lakh crores.

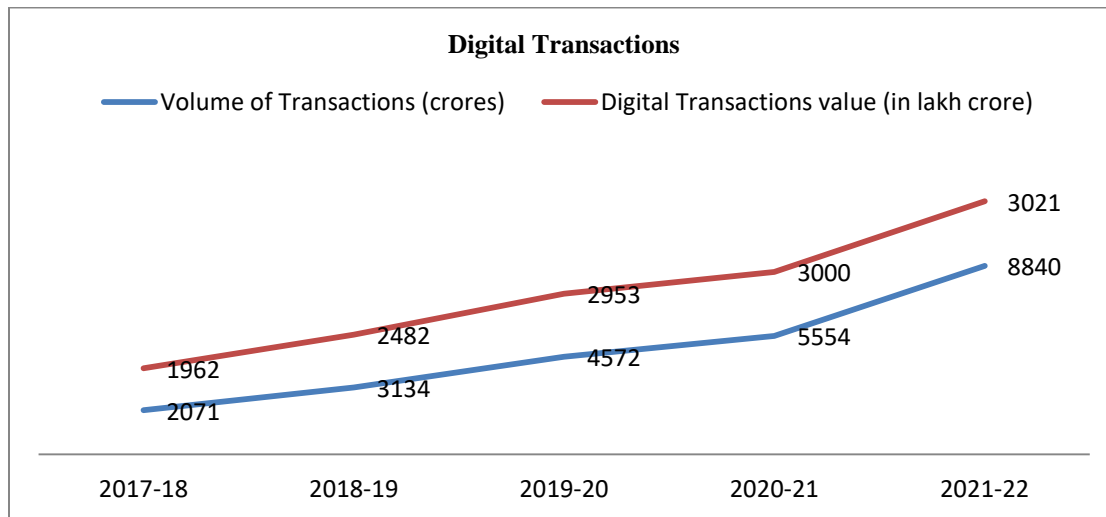


Figure 1

Sources: (Compiled from RBI, NPCI, Banks and <https://www.meity.gov.in/digidhan>)

Note: Digital payment modes considered are BHIM-UPI, IMPS, NACH, AePS, NETC, debit cards, credit cards, NEFT, RTGS, PPI and others.

Multiple factors can be reasoned for this phenomenal exponential growth witnessed in the last few years. The growth has been fueled by the ever-increasing smartphone penetration in the country, along with the convenience that digital payment offers the user, etc. Also, the coming up of Non-Banking payment services (payments bank, digital wallets, etc.) and the favorable regulatory policies have resulted in more consumer acceptance regarding digital payment. With India at present having 300 million internet users, it holds a 3rd rank in the world's largest internet user base. Out of this 300 million, 50 % have Internet accessibility on their hand in the form of mobile phones, contributing significantly to the growth story of digital payments.

According to the IDC Financial Insights report, digital payments in India will surpass cash and non-digital payments by 2022. "The payment industry in India is clearly going through gigantic changes. Over the last few years, the tremendous growth in the digital payment space has elicited a passionate debate across the industry. However, one thing is certain: the next several years will see a transformation of how consumers, businesses, and the government move money"( Anuj Agarwal, Senior Research Manager, IDC Financial Insights). The Government of India's push in terms of UPI, Aadhar-linked electronic payments and a significant overhaul of digital infrastructure coupled with supportive policy framework changes are the key factors in the surge of digital transactions. The most preferred mode of payment for people is BHIM UPI, which recorded 803.6 crore digital payment transactions with a value of Rs 12.98 lakhs crore in Jan 2023. (PIB Delhi)

**Table 1: Digital Transactions for the Ministry of MSMEs and its attached offices (Dec.2022)**

S.No	Name of the Organization	Number of Transactions		
		Total	Digital	Percentage No.of Digital transactions
1	KVIC	5515166	4877445	88.44
2	NSIC	121245	115798	95.51
3	DC Office	103666	94971	91.61
4	Coir Board	13535	11777	87.01
5	NIMSME	3537	3462	97.88
6	MGIRI	1111	823	74.01
	Total	5758260	5104276	88.64

*Source: (Annual Report of MSME)*

For the ministry and its attached offices (KVIC, NSIC, DC Office, Coir Board, NIMSME, MGIRI), almost all offices recorded nearly 90% of digital transactions. The average stood around 88.64% in number during 2022-2023 (up to December 2022), with NIMSME touching almost 98 % digital payments out of the total payments. These figures testify to the growth of Digital payments and its ever-increasing influence on how business will continue to be transacted in the future.

**Table 2: Total digital transactions for the Ministry of MSMEs (up to Dec.2022)**

Year	Number of Transactions		No. of digital Transactions in %	Growth of digital transactions %
	Total No. of Transactions	Digital Transactions		
2018-2019	5984171	4935478	82.48	
2019-2020	4957869	4196951	86.51	-14.96
2020-2021	3861529	3376621	90.19	-19.54
2021-2022	4135997	3611362	87.32	6.95
2022-2023(up to Dec.2022)	5758260	5104276	88.64	41.33

*Source: (Annual Report of MSME)*

As per Table 2, the number of digital transactions in the MSME sector has increased over the years. The growth of digital transactions has increased by 41.33 percent from 2021-22 to 2022-23, which again tells us that digital is the way forward. Although the Covid years were a minor blip, after Covid, the transactions through digital mode have increased manifold.

## VI. MSME - IMPACT OF GOVERNMENT SCHEMES

It is also a very well-known fact that digitization is increasingly becoming an important part of our lives, and it will be ubiquitous in the near future. The integration of MSMEs into the digital economy has begun with digital and financial education, leading to improved business practices and digital acceptance. Digitalization is revolutionizing the way of conducting business (Parida, Sjödin&Reim, 2019). Currently, many processes in micro-enterprises are manual, inefficient and time-consuming. Hence, the requirement for technology to transform and spur growth in the MSME segment, particularly in the nano and micro enterprises segment, is obvious. Udyam, e-Shram, National Career Service (NCS) and Aatmanirbhar Skilled Employee Employer Mapping (ASEEM) portals are being interlinked. They will now serve as portals with live, organic databases, delivering G2C, B2C, and B2B services relating to credit facilitation, skilling and recruitment.

The Digital Saksham project has been initiated by CII and supported by MasterCard and the government National Institute for MSMEs (ni-msme) to strengthen over three lakh small businesses through digital adoption, improved business skills and financial inclusion.

This project is initiated to create awareness of the benefits of digital commerce, make them aware of different digital tools which help them in digital commerce, accept digital payments, establish their online presence, and drive efficiencies in operations. This project will help to achieve two of the centre's goals. 1) It will modernize the MSMEs to take their overall revenues up to 50% of GDP and create 150 million jobs. II) Digital India: enable 45 billion digital transactions.

MSME RuPay Credit Card has also been launched to facilitate the MSMEs to simplify their payment mechanism to meet business-related operational expenses. Union Bank of India has offered this card in association with the National Payment Corporation of India (NPCI). MSMEs are always struggling with financial difficulty, so the launch of MSME cards will bring relief to MSME businessmen in a big way. The RuPay Card offers benefits like any digital payments and an interest-free period and will carry an interest rate similar to the rate charged for loans. MSME borrowers can enjoy an interest-free credit period of up to 50 days on their business spending. So, this card will also reduce the demand for cash withdrawal by businesses with the availability of digital payment tools. Entrepreneurs cannot use this card for personal purposes.

## VII. CONCLUSION

The digital payment space is transforming, and the sector has witnessed tremendous growth, innovations and regulatory support over the last few years. The government's push towards creating awareness and educating the MSME sector with respect to the adoption of technology and its seamless execution has spurred growth in digital payments. Such have been the changes that India has become the most evolved country in the digital payment ecosystem. The focus should be to keep the momentum going with more support from the government and innovations, safety and convenience from the players.

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