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## Digital Payments And Informal Sector

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### ABSTRACT

A business transaction involves a two way action and the payment is the amount given for purchasing a product or taking one service. At this point the need of various modes of payment arises and cashless payments are one among them. The nature of business can be formal or informal. The informal sector comprises a noteworthy section of our economy. The advent of technology has enabled the use of cashless transactions in an easy mode. In India, the popular digital payment methods are through UPI wallets, Internet banking services, payment via Debit and Credit cards, etc., in India, the pandemic situation can be attributed as the motivating force for adoption of digital payments by many people and at the same time the technological advancements in the recent past have strengthened the smooth processing of digital payments. This paper tries to explore the need of digital payments and examines the role of digital payments in informal sector.

*Key Words: Digital Payments, Informal Sector, Unified Payments Interface*

### INTRODUCTION

In a business transaction, the payment is an important step as it is the consideration for which the product is exchanged. In olden days people used to exchange the goods for other goods called the barter system and as the development process moved on, the money was started as the consideration for the goods being sold. As it has many issues to carry money, the online transactions have been encouraged to make the payments in a cashless mode. At present there are many ways in which the payment can be made with the help of technology. As a sequel to this, the introduction of latest technology applications the consumers are able to send the money in cashless and easy mode. In India, the popular digital payment methods are through UPI wallets, Internet banking services, payment via Debit and Credit cards, etc., in India, the pandemic situation can be attributed as the motivating force for adoption of digital payments by many people and at the same time the technological advancements in the recent past have strengthened the smooth processing of digital payments. The adoption of digital payments have not only transformed the traditional banking facilities into modern one but also increased the reach of banking facilities to all people round the clock. With the digital payments mechanism the consumers need not wait for the banking hours and visit the banks personally and in turn they can complete their transactions digitally at any time. The informal sector has lot of issues and limitations and its environment and has to face variety of situations in the normal course of business. Therefore, the collection of payments is an issue in the light of multiple payment of small denomination every day. The collections of firms in informal sector are individually small but has good quantum when compared at country level. Due to non acceptance of online payments, the small business houses may lose the revenue from the potential sales. This development may bring losses to the small and medium businesses.

## **REVIEW OF LITERATURE**

**Raut Nilesh kumar Kailashbha**<sup>1</sup> in his article concluded that the Indian banking industry has also embraced technological changes over the years to realize the objective of Digital India, Cashless India. As a result of which India's own UPI has become accepted abroad as well. Along with this beautiful scene, there is an unbalanced scene in the rural areas of India where there is not a single traditional bank. Hence NPCI, Government of India, Public Sector Banks should make joint efforts.

**Bhanwar Lal Raigar**<sup>2</sup> in a study on digital payments noted that in recent times, there has been a notable increase in the acceptance and use of digital payment mechanisms and it is estimated that the payments business in India is expected to have a market value of \$700 billion by the year 2022. The rapid spread of the virus has significantly influenced the expansion of the digital payments sector in India, leading to a notable increase in the use of digital payment methods by people. The Indian government has implemented proactive measures to reduce the dependence on cash within the domestic economy, leading to the development of a comprehensive payment system that successfully guarantees both security and effectiveness.

**PK Senyo**<sup>3</sup> in a research on fintech developed a theoretical model to demonstrate how these logics influence mobile money mediated practices and in turn offer informal businesses new opportunity for economic empowerment. The findings revealed how regulatory change has allowed non-financial organizations (e.g., MNOs and FinTech firms) to participate in the financial sector and in turn influenced the redesign of technologies for operationalising payments resulting in the introduction of new mobile money payment channels. For informal businesses, change occurs through related shifts in assumptions for operating informal businesses creating new mobile money mediated business practices as a potential pathway to economic empowerment. Finally, it was concluded that the co-existence and translation from old to new logics enable FinTech to a possible pathway to economic empowerment for informal businesses.

**Gladys Siwela and Tavonga Njaya**<sup>4</sup> in their research on digital financial inclusion noted that targeted financial inclusion policies should ensure that marginalized groups, particularly females in the informal sector, have access to cheap digital financial products and services. Making access to digital financial services easy, facilities other ancillary activities such as saving, investing in education and other activities which are fundamental for a healthy community. In 16 countries, females cannot freely move away from home to do their personal business. In such countries, the gender gap in terms of financial inclusion is double to that in countries where females do not experience such restrictions.

**B. Angamuthu**<sup>5</sup> in his research concluded that digital payment systems are the connective tissue of every economic system, including India. It facilitates purchase of goods and services and sending money to friends, family, and business partners as well. It enables Governments to collect taxes and disburse social payments, and suppliers to collect payments from buyers. The overall digital payment transactions recorded significant growth in both volume and value terms. In India, the government's focus on reducing cash in the economy has resulted in a robust payment system with ensures safety and efficiency. It has led to phenomenal growth, in particular, in IMPS, M-Wallet and PPI Cards during the study period in terms of both volume and value measures.

**Zahoor Ahmad Shah**<sup>6</sup> in a research found that India is at the cusp of transformation as we embark upon the new phase of banking and financial inclusion. New technology in particular has both enabled and in turn been fuelled by a huge influx of new providers and products, all vying to enter the payments space. However, government impetus to digital transaction by demonetization of high value currency notes and providing various initiatives, still majority of transactions are cash based and cash is still king for Indian consumers, hence achieving a 100% cashless society will not be possible in near future, but one can always start from a less cash society and then move towards becoming mostly cashless. Thus, cash continue to play an important role for discrete transactions, especially in the most remote areas and informal sector.

## **OBJECTIVES**

The following are objectives of the paper:

1. To study the need of digital payments
2. To assess the role of digital payments in informal sector

## **METHODOLOGY**

The present research paper is conceptual and descriptive in nature and attempts to study the need of digital payments in informal sector. For this purpose the secondary data has been collected from the published and available sources to put focus on the role of digital payments in informal sector. In addition to this the need and role of digital payments is examined in the light of various outcomes and advantages in the informal sector.

## **NEED OF DIGITAL PAYMENTS**

The payment mechanism in the business transactions plays an important role. The ultimate result of any business transaction is realization of sales proceeds and therefore the payments shall be very prompt and timely. One way of accepting payments is physical or cash mode and the other way is online or digital mode. All the business people in informal sector do business in micro nature and hence try to realize the sales proceeds fast. The digital payments try to address this issue by making the payments instantly. This also reduces the cost involved in the transactions for small business enterprises. Also, digital transactions are a step ahead of the traditional banking transactions. The digital regime takes the benefit from various digital payment methods such as mobile wallets, debit and credit cards, Unified Payments Interface (UPI), and internet banking.

## **ROLE OF DIGITAL PAYMENTS IN INFORMAL SECTOR**

In the developing world, innovations have changed the way the business is carried out and the payment systems are not an exception. The latest technology have has transformed conventional cash payment systems into a digital payment system which is more efficient and effective system. Therefore, the digital payments system is considered to be the most preferential payment method around the world, including India. The digital payments are a boon to the informal sector. The role of digital payments is highly important as it provides speed and instant settlement of transactions thereby enriching the collections cycle. The role of digital payments can be understood in the following ways:

1. Instant payments
2. Round the clock payments
3. Convenient payment schedule
4. Secured payment system
5. Efficient services
6. Low cost service
7. Early collection of business revenue
8. Simple banking solutions
9. Good Customer Relations
10. Enhanced business speed

## **CONCLUSION**

The payments through electronic means are believed to be a major force in economic development and also influencing the consumer behaviour. The pandemic situation that prevailed for more than a year can be ascribed as the inspiring force in the informal sector for adoption of digital payments and on the other hand the technological advancements in the present generation have strengthened the smooth processing of digital payments. The general overview of digital payment transactions recorded across the world has experienced a significant growth in both volume and value terms. The informal sector has also got benefitted from this development. There are numerous benefits from adopting the digital payments and also some challenges posed in the process of digital payments, still the future is expected to be bright and safe. As the innovations and new development provide an opportunity to reap the benefits and excel in the business world, the advent of digital

payments has become a boon for the informal sector. The digital payments system is considered to be the most preferential payment method around the world, including India.

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